

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-K**

(Mark One)

☒ Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

**For the Fiscal Year Ended December 31, 2000**

☐ Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number **1-12542**

**UTI ENERGY CORP.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of incorporation)*

**23-2037823**

*(I.R.S. Employer Identification No.)*

**Suite 225N**

**16800 Greenspoint Park Drive**

**Houston, Texas**

*(Address of principal executive offices)*

**77060-2390**

*(Zip Code)*

**(281) 873-4111**

*(Registrant's telephone number, including area code)*

Securities registered pursuant to section 12(b) of the Act:

**Common Stock, Par Value \$.001**

*(Title of each class)*

**American Stock Exchange**

*(Name of each exchange on which registered)*

Securities registered pursuant to section 12(g) of the Act: **None**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X

No   

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [    ]

Aggregate market value of the voting stock held by non-affiliates of the registrant.

**\$1,172,993,184 at February 9, 2001**

Number of shares outstanding of each class of registrant's Common Stock, as of the latest practicable date.

**37,572,030 shares of Common Stock at February 9, 2001**

Documents incorporated by reference.

**Proxy statement to be filed pursuant to Regulation 14A which involves the election of directors (Part III)**

## **PART I**

### **Item 1. BUSINESS**

#### **Introduction**

UTI Energy Corp. is a leading provider of onshore contract drilling services to companies that explore for and produce oil and natural gas. UTI operates one of the largest fleets of drilling rigs used to drill oil and natural gas wells on land in North America. As of February 9, 2001, UTI had a fleet of 150 land drilling rigs. A drilling rig includes the structure, power source and machinery necessary to allow a drill bit to penetrate rock to a depth desired by the customer. UTI's drilling rigs operate in the oil and natural gas producing basins of:

- Louisiana
- New Mexico
- Oklahoma
- Texas
- Western Canada (Alberta, British Columbia and Saskatchewan)

UTI also provides pressure pumping services in the Appalachian Basin. Pressure pumping services consist primarily of well stimulation and cementing for the completion of new wells and remedial work on existing wells. Well stimulation involves processes inside a well designed to enhance the flow of oil, natural gas or other desired substances from the well. Cementing is the process of inserting material between the hole and the pipe to center and stabilize the pipe in the hole.

UTI operates principally in two business segments: drilling oil or natural gas wells on land and pressure pumping. Financial information and other disclosures relating to these business segments are provided in the Notes to Consolidated Financial Statements.

On February 5, 2001, UTI announced that its Board of Directors along with the Board of Directors of Patterson Energy Inc. approved a merger of the two companies. According to the terms of the merger agreement between UTI and Patterson, shareholders of UTI will receive one share of Patterson common stock for each share of UTI common stock and Patterson will assume UTI's outstanding options and warrants. The board of directors of the new company will consist of eleven directors, six of which will be selected by Patterson and five of which would be selected by UTI. Although the merger agreement does not specify who will be the officers of the new company, management of UTI understands that Mark S. Siegel, UTI's Chairman of the Board, would be the Chairman of the Board and Cloyce A. Talbott, Patterson's Chairman of the Board and Chief Executive Officer, would be Chief Executive Officer. The combined company will be the second largest United States land-based drilling service contractor with 302 drilling rigs and will be called "Patterson-UTI Energy, Inc."

Under the terms of the merger agreement, both UTI and Patterson have agreed not to solicit competing offers, but the boards of directors of each company are free to consider and accept an unsolicited offer if, based on advice of counsel, it believes it must do so in the exercise of its fiduciary duty. In the event a party accepts an unsolicited offer, or its board of directors withdraws its recommendation in light of an unsolicited offer, or the shareholders do not vote to approve the merger because of an unsolicited offer, the other party would be entitled to receive a breakup fee of \$32.5 million plus reimbursement of expenses of up to \$2.5 million. In the event the shareholders of one party do not vote to approve the merger and the other party is not in default and is ready, willing and able to perform its agreement, the party whose shareholders vote against the merger will be required to pay to the other party \$2.5 million, plus up to an additional \$2.5 million in expenses.

The merger is subject to customary conditions to closing, including approval by the shareholders of both companies, as well as any necessary regulatory filings and approvals, such as the anti-trust provisions of the Hart-Scott-Rodino Act. There can be no assurance that the merger will be consummated in accordance with the terms of the merger agreement, if at all.

## Land Drilling

UTI's rigs can drill to depths ranging from 8,000 to 30,000 feet. UTI continues to increase its number of active rigs as illustrated by the following table:

	As of <u>February 9, 2001</u>	As of <u>December 31, 1999</u>
Number of Active Rigs	111	70

An active rig is a rig that is currently generating revenue. An inactive rig is a rig that is not generating revenue as of the date of the rig count. UTI had 39 inactive rigs as of February 9, 2001. Generally, UTI intends to place the inactive rigs into service in an orderly manner as regional market conditions merit and trained crews are retained. Some of UTI's inactive rigs cannot be activated without incurring refurbishing expenditures which are estimated to range from less than \$100,000 to \$3 million. In limited situations, UTI may use inactive rigs for parts.

UTI's rig utilization rate, which is calculated by dividing the operating days by total days rigs are available, was 62% for the year ended December 31, 2000. UTI's rig utilization during the fourth quarter of 2000 was 70%.

UTI's land drilling services are performed through regional drilling units:

- East Texas (UTI Drilling Company)
- Mid-Continent (UTI Drilling Company - Triad)
- New Mexico/West Texas (UTI Drilling Company)
- South Texas (UTI Drilling Company - Southland)
- Western Canada (Phelps Drilling Co.)

UTI's regional offices for contract drilling are located in:

- Calgary, Alberta
- Midland, Texas
- Oklahoma City, Oklahoma
- Tyler, Texas
- Victoria, Texas

UTI deploys rigs and equipment among the various drilling units based on regional need and profitability. UTI's land drilling customers include major oil companies and various sized independent producers.

### *Drilling Rigs*

A land drilling rig consists of various components, including:

- engines
- drawworks or hoist
- derrick or mast
- substructure
- pumps
- blowout preventers

Over the life of a typical drilling rig, many of these components are replaced or rebuilt on a periodic basis. Other components, including the derrick/mast and substructure, can be utilized for extended periods of time with proper maintenance. UTI follows a policy of keeping its drilling rigs technologically competitive and well maintained.

The following table shows the current distribution of rigs among UTI's regional units as of February 9, 2001:

<u>Region</u>	<u>Active Rigs</u>	<u>Inactive Rigs</u>	<u>Total Rigs</u>	<u>Average Rated Drilling Depths</u>
East Texas .....	15	4	19	16,000 ft.
Mid Continent .....	19	16	35	13,000 ft.
New Mexico/West Texas ...	47	14	61	13,500 ft.
South Texas .....	16	3	19	16,500 ft.
Western Canada .....	<u>14</u>	<u>2</u>	<u>16</u>	9,000 ft.
Total .....	<u>111</u>	<u>39</u>	<u>150</u>	

The following table sets forth certain data concerning UTI's drilling operations:

	Years Ended December 31,		
	2000	1999	1998
	<i>(dollars in thousands)</i>		
Revenues .....	\$ 253,887	\$ 134,870	\$ 162,600
Direct operating costs			
(excluding depreciation and amortization) .....	\$ 195,360	\$ 110,958	\$ 124,779
Selling, general and administrative .....	\$ 3,943	\$ 2,818	\$ 3,767
Depreciation and amortization .....	\$ 26,369	\$ 22,490	\$ 18,350
Operating days <sup>(1)</sup> .....	30,998	17,823	20,308
Average revenue per day .....	\$ 8.19	\$ 7.57	\$ 8.01
Average direct operating costs			
(excluding depreciation and amortization) per day ....	\$ 6.30	\$ 6.23	\$ 6.14
Average margin per day <sup>(2)</sup> .....	\$ 1.89	\$ 1.34	\$ 1.87
Number of owned rigs at end of year .....	144	125	109
Average number of rigs owned during year .....	136	112	100
Average rigs operating .....	85	49	56
Rig utilization percentage <sup>(3)</sup> .....	62%	43%	55%
Capital expenditures .....	\$ 34,186	\$ 7,116	\$ 32,912

- (1) An operating day is defined as a day during which a rig is being operated, mobilized, assembled or dismantled while under contract.
- (2) Average margin per day represents average revenue per day minus average direct operating costs per day and excludes provisions for bad debts, other charges, depreciation and amortization and selling, general and administrative expenses.
- (3) Utilization rates are calculated by dividing the operating days by the total available days. Available days are calculated by multiplying rigs owned by the days in the period under review.

### *Drilling Contracts*

UTI's land drilling rigs are employed under individual contracts. The drilling contract may be for a single well or a number of wells. Drilling contracts are generally obtained through competitive bidding. Contracts generally are subject to termination by the customer on short notice. Drilling contracts may provide for compensation on a dayrate, footage or turnkey basis, which are described below:

#### 1) Dayrate Contract

A dayrate contract provides for a basic rate per day when drilling. A dayrate contract provides for lower rates when the rig is moving or when drilling operations are interrupted or restricted by:

- equipment breakdowns
- adverse weather conditions
- other conditions beyond the control of UTI

In addition, dayrate contracts typically provide for a lump sum fee for the mobilization and demobilization of the drilling rig. The dayrate depends on:

- market and competitive conditions
- nature of the operations to be performed
- duration of the work
- equipment and services to be provided
- geographic area involved
- other variables

## 2) Footage and Turnkey Contracts

In a footage contract, UTI undertakes to drill a well to a specified depth at a fixed price per foot of hole. In a turnkey contract, UTI undertakes to drill a well to a specified depth for a fixed price. UTI enters into footage and turnkey contracts in situations in which UTI possesses experience and expertise in the geological and operational aspect of the project.

Footage and turnkey contracts have the following characteristics that are not normally found under contracts where UTI is paid on a daily rental basis:

- UTI must bear the cost of performing the drilling services until the target depth is reached
- UTI must make significant cash commitments
- UTI generally furnishes other services including testing, coring and casing the hole
- UTI earns compensation upon completion of the well to the specified depth
- UTI bears the cost of unanticipated downhole problems and other cost overruns

For the year ended December 31, 2000, UTI completed wells under all three types of contracts as the following table shows:

	<u>Percentage of Completed Wells</u>
Dayrate .....	59%
Footage .....	27%
Turnkey .....	14%

UTI also provides horizontal boring services which uses vertical drilling technology to bore horizontal holes. These services are used for the placement of pipelines and cables, including fiber optic cables, under obstacles such as highways and railroads. These services are currently marketed in the eastern half of the United States.

## **Pressure Pumping**

UTI, through its subsidiary Universal Well Services, Inc., is a leading provider of pressure pumping services in the northern Appalachian Basin. Pressure pumping services consist primarily of:

- well stimulation and cementing for the completion of new wells
- remedial work on existing wells

Generally, all completed Appalachian Basin wells require cementing services before production commences. Cementing is the process of inserting material between the hole wall and the pipe to center and stabilize the pipe in the hole. In addition, most completed wells drilled in the Appalachian Basin require some form of fracturing or other stimulation to enhance the flow of oil and natural gas to the well bore.

UTI continuously maintains its pressure pumping equipment. Virtually all of the pressure pumping equipment is in use on a regular basis. As of February 9, 2001, UTI operated the following pressure pumping equipment:

<u>Equipment Type</u>	<u>Number of Units</u>
Cement pumper trucks . . . . .	14
Fracturing pumper trucks . . . . .	21
Nitrogen pumper trucks . . . . .	15
Blender trucks . . . . .	11
Bulk acid trucks . . . . .	7
Bulk cement trucks . . . . .	16
Bulk nitrogen trucks . . . . .	6
Bulk sand trucks . . . . .	18
Connection trucks . . . . .	5
Other trucks . . . . .	<u>6</u>
Total . . . . .	<u>119</u>

The following table shows certain data concerning UTI's pressure pumping operations:

	<u>Years Ended December 31,</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
	<i>(dollars in thousands)</i>		
Revenues . . . . .	\$ 21,465	\$ 20,721	\$ 23,365
Direct operating costs (excluding depreciation and amortization) . . . . .	\$ 13,403	\$ 12,219	\$ 14,041
Selling, general and administrative . . . . .	\$ 3,197	\$ 3,457	\$ 3,216
Depreciation and amortization . . . . .	\$ 1,584	\$ 1,391	\$ 1,043
Total jobs . . . . .	3,329	2,892	3,292
Average revenue per job . . . . .	\$ 6.45	\$ 7.16	\$ 7.10
Average direct operating costs (excluding depreciation and amortization) per job . . . .	\$ 4.03	\$ 4.22	\$ 4.27
Average margin per job <sup>(1)</sup> . . . . .	\$ 2.42	\$ 2.94	\$ 2.83
Capital expenditures . . . . .	\$ 4,426	\$ 2,307	\$ 3,895

(1) Average margin per job represents average revenue per job minus average direct operating costs per job and excludes provisions for bad debts, other charges, depreciation and amortization and selling, general and administrative expenses.

## **Other Operations**

In addition to its operating activities, UTI has invested in oil and natural gas wells. These investments are principally in the Appalachian and Permian Basins. The net book value of such investments was \$169,000 at December 31, 2000 and \$318,000 at December 31, 1999.

## **Industry Conditions**

Demand and prices for UTI's services depend upon the level of activity in the onshore oil and natural gas exploration and production industry in the United States and Canada. Because this industry is volatile, levels of oil and natural gas exploration activities in UTI's markets and demand for UTI's services may change significantly. Further, any material changes in the demand for or supply of oil or natural gas could materially impact the demand for UTI's services.

The level of drilling activity in the onshore oil and natural gas exploration and production industry in the United States and Canada is influenced by numerous factors over which UTI has no control, including the following:

- the level of oil and natural gas prices
- expectations about future oil and natural gas prices
- the cost of exploring for, producing and delivering oil and natural gas
- the level and price of foreign imports of oil and natural gas
- the discovery rate of new oil and natural gas reserves
- available pipeline and other oil and natural gas transportation capacity
- local weather conditions
- international, political, military, regulatory and economic conditions
- the ability of oil and natural gas companies to raise capital

Prices for oil and natural gas are expected to continue to be volatile and to affect the demand for and pricing of UTI's services.

As prices for oil and natural gas have increased, exploration and production companies have increased spending budgets. These increased spending budgets have increased the demand for drilling services. Increased demand for drilling services increased the contract rates that UTI received for contract drilling services performed in 2000 compared to 1999.

## **Competition**

The land drilling and well servicing businesses are intensely competitive due to the fact that the supply of available rigs, particularly in the United States land markets, exceeds the demand for those rigs. This excess capacity has resulted in substantial competition for drilling contracts. The fact that drilling rigs are mobile and can be moved from one market to another in response to market conditions heightens the competition in the industry.



UTI believes that price competition for drilling contracts will continue for the foreseeable future due to the existence of idle rigs, which are rigs that are not under contract but are available to be marketed or could be prepared for marketing in a short period of time. In addition, some of UTI's competitors have greater financial resources than UTI, which may enable them to:

- better withstand industry downturns
- compete more effectively on the basis of price
- acquire existing rigs or build new rigs

### **Seasonality**

Seasonality does not significantly affect the overall operations of UTI. However, UTI's pressure pumping services in Appalachia and UTI's drilling operations in Canada are subject to slow periods of activity during the spring thaw. In addition, UTI's drilling operations in Canada are subject to slow periods of activity during the fall.

### **Raw Materials and Subcontractors**

UTI uses many suppliers of raw materials and services. These materials and services have been and continue to be available. Where appropriate, UTI maximizes price discounts through volume purchases. UTI also utilizes numerous independent subcontractors from various trades.

### **Operating Risks and Insurance**

UTI's drilling operations and fleet are subject to the many hazards of the onshore drilling industry. Among other things, these hazards include:

- blowouts
- explosions
- sour gas
- well fires
- spills

These hazards can result in:

- personal injury
- loss of life
- severe damage to or destruction of property and equipment
- environmental damage
- suspension of operations

Although UTI maintains insurance protection as management deems appropriate, such insurance coverage may not provide sufficient funds in all situations to protect UTI from all liabilities that could result from its operations. Also, claims will be subject to various retentions and deductibles.

While UTI generally seeks to obtain some degree of contractual indemnification from its customers in most of its dayrate contracts, no such indemnification is typically available for footage and turnkey contracts. These indemnity agreements require the customers to hold UTI harmless in the event of loss of production or reservoir damage. This contractual indemnification may not be supported by adequate insurance maintained by the customer.

UTI's operations and financial condition could be damaged by the occurrence of a significant event not fully insured or indemnified against or the failure of a customer to meet its indemnification. Moreover, UTI may not always be able to secure insurance in the future at reasonable rates.

## **Environmental Regulation**

UTI's operations and facilities are subject to numerous state and federal environmental laws, rules and regulations, including but not limited to, laws concerning:

- containment and disposal of hazardous materials, oilfield waste, other waste materials and acids
- use of underground storage tanks
- emissions and air pollution

UTI does not anticipate that compliance with existing environmental laws and regulations will have a material adverse effect upon its operations, capital expenditures or earnings in the foreseeable future. UTI cannot predict what effect the following could have on its activities:

- additional regulation or legislation
- changes in enforcement policies or practices
- claims for damages to property and the environment

Environmental laws have generally become more restrictive in recent years. In addition, environmental laws and regulations may impose strict liability. If UTI is determined to be strictly liable, UTI could be liable for clean up costs, even if the situation resulted from:

- previous conduct of UTI that was lawful at the time conducted
- improper conduct of or conditions caused by previous property owners or other persons not associated with UTI

From time to time, parties may make claims and bring litigation against UTI under these laws. These claims and related costs could be substantial and could have a material adverse effect on UTI's financial condition. However, this has not happened in the past.

UTI is subject to The Oil Pollution Act of 1990, which amends provisions of the federal Water Pollution Control Act of 1972, commonly known as the Clean Water Act, and other statutes that address the prevention of and response to oil spills into navigable waters. The Oil Pollution Act subjects owners of facilities to:

- strict, joint and several liability for all containment and cleanup costs
- other damages arising from a spill, including but not limited to, the costs of responding to a release of oil to surface waters

The Clean Water Act provides penalties for any discharge of petroleum products in reportable quantities and imposes substantial liability for the costs of removing a spill. State laws for the control of water pollution also provide varying civil and criminal penalties and liabilities in the case of releases of petroleum or its derivatives into surface waters or into the ground. The Environmental Protection Agency is also authorized to seek preliminary and permanent injunctive relief and in certain cases, criminal penalties and fines. UTI may be exposed to claims that it is liable under the Clean Water Act if a discharge occurs at a well site where UTI is conducting drilling or pressure pumping operations.

UTI is also subject to The Comprehensive Environmental Response Compensation and Liability Act, which is commonly known as CERCLA or the “Superfund Law”. CERCLA imposes liability, without regard to fault or the legality of the original conduct, on certain classes of persons which release a “hazardous substance” into the environment. These persons include the owner and operator of a site and persons that disposed of or arranged for the disposal of the hazardous substances found at the site. The definition of hazardous substance does not currently include crude oil and certain drilling materials, such as drilling fluids and produced waters, although they may be included in the future. In addition, UTI’s operations may involve the use or handling of acids currently classified as hazardous substances and other materials that may in the future be classified as environmentally hazardous substances.

As mentioned above, UTI’s operations are subject to local, state and federal regulations for the control of emissions and air pollution. Legal and regulatory requirements in this area are increasing. UTI cannot assure that significant costs and liabilities will not be incurred in the future as a result of new regulatory developments. In particular, regulations promulgated under the Clean Air Act Amendments of 1990 may impose additional compliance requirements that could affect UTI’s operations. UTI may in the future be subject to civil or administrative enforcement actions for failure to comply strictly with air regulations and permits. These enforcement actions are generally resolved by paying monetary fines or correcting any identified deficiencies. Alternatively, regulatory agencies could prevent UTI from constructing or operating certain air emission sources.

Management believes that UTI is in substantial compliance with environmental laws and regulations.

## Employees

As of February 9, 2001, UTI employed approximately 2,772 full-time employees. 2,633 of these employees were field personnel and 139 of them were employed in selling and administrative capacities.

None of UTI's employees are represented by labor unions. There have been no work stoppages or strikes during the last three years that have resulted in the loss of production or production delays. Management believes that employee relations are good. In addition to the services of its employees, UTI uses consultants periodically.

UTI maintains an incentive compensation plan for its managerial and key employees. The incentive compensation plan is based on operating results and return on invested capital. UTI believes that this plan allows it to attract and retain qualified managers and key operating employees. UTI also provides incentive compensation to its rig workers based on operating results and safety records.

## Item 2. PROPERTIES

The following table summarizes UTI's significant real estate:

<u>Location</u>	<u>Business Segment</u>	<u>Owned/Leased</u>	<u>Activity</u>
Calgary, Alberta	Land Drilling	Leased	Field Office
Nisku, Alberta	Land Drilling	Leased	Field Office/Rig Yard
Hobbs, New Mexico	Land Drilling	Leased	Field Office
Oklahoma City, Oklahoma	Land Drilling	Owned	Field Office/Rig Yard
Woodward, Oklahoma	Land Drilling	Owned	Field Office/Rig Yard
Levelland, Texas	Land Drilling	Owned	Field Office/Rig Yard
Lubbock, Texas	Land Drilling	Leased	Field Office
Midland, Texas	Land Drilling	Owned	Field Office/Rig Yard
Midland, Texas	Land Drilling	Leased	Field Office
Tyler, Texas	Land Drilling	Leased	Field Office/Rig Yard
Victoria, Texas	Land Drilling	Owned	Field Office/Rig Yard
Allen, Kentucky	Pressure Pumping	Leased	Base Camp
Wooster, Ohio	Pressure Pumping	Leased	Base Camp
Bradford, Pennsylvania	Pressure Pumping	Leased	Base Camp
Meadville, Pennsylvania	Pressure Pumping	Owned	Base Camp
Punxsutawney, Pennsylvania	Pressure Pumping	Owned	Base Camp
Houston, Texas	Corporate	Leased	Principal Executive Offices

UTI does not believe that its executive offices or its other leased facilities are material to its operations. Management believes that UTI's properties are suitable and adequate for its operations.

### Item 3. LEGAL PROCEEDINGS

UTI is involved in several claims arising in the ordinary course of business. In the opinion of management, all of these claims are covered by insurance or will not have a material adverse effect on UTI's financial position.

Sometimes individuals bring personal injury claims against UTI and its operating subsidiaries. Management believes that it maintains a reasonable amount of insurance coverage against such claims.

### Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

UTI did not submit any matters to a vote of security holders during the quarter that ended December 31, 2000.

## PART II

### Item 5. MARKET FOR UTI'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

UTI's common stock is the only class of equity of UTI currently outstanding. UTI's common stock is traded on the American Stock Exchange under the symbol "UTI". The following table provides price information for UTI's common stock for 2000 and 1999, adjusted for UTI's two-for-one stock split effected on October 3, 2000.

Quarter Ended	2000		1999	
	High	Low	High	Low
March 31 .....	\$ 19.69	\$ 11.00	\$ 5.44	\$ 2.56
June 30 .....	\$ 22.63	\$ 14.00	\$ 8.56	\$ 4.31
September 30 .....	\$ 23.88	\$ 14.72	\$ 11.44	\$ 7.34
December 31 .....	\$ 32.88	\$ 18.25	\$ 11.69	\$ 7.38

As of February 9, 2001, the closing price for UTI's common stock was \$36.13. As of February 9, 2001, UTI's common stock was held by approximately 250 stockholders of record. Management estimates that more than 6,300 persons beneficially owned the stock.

UTI has not paid a cash dividend on its common stock during the two most recent fiscal years and management does not anticipate that any cash dividend will be paid on the common stock for the foreseeable future.

## Item 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial data of UTI for each of the periods indicated. The selected financial data is derived from UTI's audited consolidated financial statements. The information presented below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the "Consolidated Financial Statements" and notes to the consolidated financial statements.

	Years Ended December 31,				
	2000	1999	1998	1997	1996
	<i>(in thousands, except per share data)</i>				
<b>Statement of Operations Data<sup>(1)</sup></b>					
Revenues	\$ 275,543	\$ 155,775	\$ 186,157	\$ 182,437	\$ 97,301
Direct operating costs (excluding depreciation and amortization)	208,825	123,240	138,935	137,499	78,718
Selling, general and administrative expenses	11,959	10,170	10,781	10,011	7,166
Provisions for bad debts	(456)	548	1,143	623	141
Other charges (income) <sup>(2)</sup>	(483)	(2,861)	206	(774)	(517)
Depreciation and amortization	28,331	24,122	19,529	11,075	4,292
Operating income	27,367	556	15,563	24,003	7,501
Other income	548	585	1,355	461	824
Interest expense	(5,111)	(4,168)	(3,815)	(4,330)	(1,148)
Income (loss) before income taxes	22,804	(3,027)	13,103	20,134	7,177
Income taxes	8,634	(425)	5,235	7,609	2,324
Income (loss) before extraordinary item	14,170	(2,602)	7,868	12,525	4,853
Extraordinary item, net of tax	(329)	-	-	-	-
Net income (loss)	<u>\$ 13,841</u>	<u>\$ (2,602)</u>	<u>\$ 7,868</u>	<u>\$ 12,525</u>	<u>\$ 4,853</u>
Net income (loss) per common share					
Basic	<u>\$ 0.38</u>	<u>\$ (0.08)</u>	<u>\$ 0.24</u>	<u>\$ 0.48</u>	<u>\$ 0.23</u>
Diluted	<u>\$ 0.36</u>	<u>\$ (0.08)</u>	<u>\$ 0.23</u>	<u>\$ 0.42</u>	<u>\$ 0.21</u>
Average common shares outstanding					
Basic	36,860	33,984	32,139	26,165	20,896
Diluted	38,817	33,984	33,590	30,139	22,878
	As of December 31,				
	2000	1999	1998	1997	1996
	<i>(in thousands)</i>				
<b>Balance Sheet Data</b>					
Working capital <sup>(3)</sup>	\$ 18,589	\$ 20,895	\$ 22,592	\$ 70,452	\$ 5,761
Total assets <sup>(1)</sup>	329,807	260,582	234,021	208,987	61,870
Long-term debt, including Redeemable Stock	55,000	32,196	31,721	30,159	14,658
Shareholders' equity <sup>(3)</sup>	178,988	157,032	144,146	137,620	22,696

(1) Over the five years presented, UTI's rig fleet has increased by 89 land drilling rigs. This increase in land drilling rigs is the primary cause for the increase in revenue, gross profit, selling, general and administrative expenses, depreciation and amortization and total assets. The net change in land drilling rigs owned was 19 during 2000, 16 during 1999, 20 during 1998, 24 during 1997 and 10 during 1996.

(2) UTI recognized a \$2.8 million gain from the sale of land drilling assets in the first quarter of 1999.

(3) In October of 1997, UTI sold approximately 3.6 million shares of its common stock in a public offering. Approximately another 3.4 million shares of UTI common stock were sold by various shareholders of UTI through the exercise of options and warrants. Both of these events resulted in net proceeds to UTI of approximately \$80.0 million.

**Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Beginning in 1995, UTI decided to expand its land drilling operations. Management of UTI made this decision to take advantage of:

- improving market conditions
- benefits arising from a consolidation in the land drilling industry

To affect this strategy, UTI disposed of its oilfield distribution business in September 1995 and embarked on an acquisition program aimed at expanding UTI's presence in the oil and natural gas producing regions in the United States. Under this strategy, UTI has acquired 132 rigs since 1995. During this same time period, UTI disposed of nine rigs primarily in the Appalachian Basin. Five of the nine rigs disposed of were sold in 1999. Recent acquisitions are as follows:

On April 9, 1998, UTI acquired Peterson Drilling Company for a total purchase price of \$20.4 million in cash. Peterson's assets included eight land drilling rigs, drilling equipment and approximately \$4.5 million in net working capital. The acquisition allowed UTI to enter the New Mexico market.

On June 24, 1998, UTI acquired the land drilling assets of LaMunyon Drilling Corporation for \$12.2 million in cash. The acquired assets consisted of five land drilling rigs and other assets used in LaMunyon's land drilling business. The acquisition expanded UTI's presence in the mid-continent region.

On July 31, 1998, UTI acquired Suits Enterprises, Inc. for approximately \$11.1 million. This \$11.1 million was comprised of \$2.9 million in cash, \$7.8 million in 7% four-year notes and five-year warrants to purchase 200,000 shares of UTI common stock. Warrants to purchase 150,000 shares were exercisable at \$13.25 per share and the remaining 50,000 warrants were exercisable at \$17.50 per share. Suits' assets included seven land drilling rigs, drilling equipment and rolling stock. The acquisition expanded UTI's presence in the mid-continent region.

On July 27, 1999, UTI acquired Norton Drilling Services, Inc., for approximately 2.6 million shares of UTI's common stock. The stock was valued at \$13.3 million or \$5.12 per share based on the average price of UTI's common stock shortly before and after the acquisition was announced. UTI also repaid approximately \$8.0 million of Norton's existing debt upon the acquisition. Norton's assets included sixteen land drilling rigs, drilling equipment and rolling stock. The acquisition increased UTI's presence in the West Texas/New Mexico market.

On December 14, 1999, UTI acquired the land drilling assets of Schneider Drilling Corporation for \$7.5 million in cash. Schneider's assets included three land drilling rigs, major components for two additional land drilling rigs and drilling equipment. The acquisition increased UTI's presence in the East Texas market.

On May 5, 2000, UTI acquired the land drilling operations of Phelps Drilling International Ltd. for \$29.6 million in cash. Phelps' assets are located in the Canadian provinces of Alberta, British Columbia and Saskatchewan. The acquired assets consisted of fourteen land drilling rigs and other assets used in Phelps' land drilling business. The acquisition allowed UTI to enter the Canadian market.

UTI acquired five land drilling rigs during 2000 through three separate transactions for an aggregate purchase price of \$7.65 million in cash and \$.9 million in a nonmonetary exchange of similar productive assets. The acquisitions provided UTI with additional capacity.

In January of 2001, UTI acquired six land drilling rigs located in the United States through three separate transactions for \$13.2 million in cash, increasing UTI's capacity.

On February 5, 2001, UTI announced that its Board of Directors along with the Board of Directors of Patterson Energy Inc. approved a merger of the two companies. According to the terms of the merger agreement between UTI and Patterson, shareholders of UTI will receive one share of Patterson common stock for each share of UTI common stock and Patterson will assume UTI's outstanding options and warrants. The board of directors of the new company will consist of eleven directors, six of which will be selected by Patterson and five of which would be selected by UTI. Although the merger agreement does not specify who will be the officers of the new company, management of UTI understands that Mark S. Siegel, UTI's Chairman of the Board, would be the Chairman of the Board and Cloyce A. Talbott, Patterson's Chairman of the Board and Chief Executive Officer, would be Chief Executive Officer. The combined company will be the second largest United States land-based drilling service contractor with 302 drilling rigs and will be called "Patterson-UTI Energy, Inc."

Under the terms of the merger agreement, both UTI and Patterson have agreed not to solicit competing offers, but the boards of directors of each company are free to consider and accept an unsolicited offer if, based on advice of counsel, it believes it must do so in the exercise of its fiduciary duty. In the event a party accepts an unsolicited offer, or its board of directors withdraws its recommendation in light of an unsolicited offer, or the shareholders do not vote to approve the merger because of an unsolicited offer, the other party would be entitled to receive a breakup fee of \$32.5 million plus reimbursement of expenses of up to \$2.5 million. In the event the shareholders of one party do not vote to approve the merger and the other party is not in default and is ready, willing and able to perform its agreement, the party whose shareholders vote against the merger will be required to pay to the other party \$2.5 million, plus up to an additional \$2.5 million in expenses.

The merger is subject to customary conditions to closing, including approval by the shareholders of both companies, as well as any necessary regulatory filings and approvals, such as the anti-trust provisions of the Hart-Scott-Rodino Act. There can be no assurance that the merger will be consummated in accordance with the terms of the merger agreement, if at all.

Beginning in 1998 and continuing into 1999, UTI and the United States land drilling industry experienced significant declines in demand and pricing for their services. The depressed market conditions caused UTI's rig fleet utilization to decrease from 55% in 1998 to 43% in 1999.

In response to these depressed industry conditions, UTI undertook a series of actions during the third quarter of 1998 and the first quarter of 1999 designed to make UTI more competitive in the marketplace.

These actions reduced UTI's regional drilling units in the United States from seven to four. It also reduced UTI's administrative staff by forty-six persons. As a result of these actions, UTI recorded other charges of \$.3 million during 1999 and \$.8 million during 1998. The charges consisted primarily of employee-related expenses.



In addition, UTI sold certain non-strategic assets of its Appalachian Basin contract drilling division for \$5.6 million. As a result, UTI recorded a gain of approximately \$2.8 million during the first quarter of 1999.

During 2000, market conditions improved in the land drilling industry in response to the improvement in commodity prices for oil and natural gas. In this regard, UTI's average utilization during 2000 increased to 62%. The dayrate component of drilling contracts also has increased during 2000. UTI currently expects market conditions in the land drilling industry to remain favorable in 2001.

## Results of Operations

UTI believes the number of land rigs actively drilling in the United States indicates the overall strength of the United States oilfield service industry. Without giving effect to acquisitions, variations in UTI's revenues and gross margins generally follow trends in the United States rig count.

The following table presents certain results of operations data for UTI and the average United States rig count as reported by Baker Hughes Inc.<sup>(1)</sup> for the periods indicated:

	Years Ended December 31,		
	2000	1999	1998
<u>Operating Data:</u>			
Average U.S. active land rig count . . . . .	770	504	671
Number of rigs owned by UTI at end of year . . . . .	144	125	109
Average number of rigs owned during year . . . . .	136	112	100
Average rigs operating . . . . .	85	49	56
<u>Land Drilling:</u>			
Operating days <sup>(2)</sup> . . . . .	30,998	17,823	20,308
Utilization rate <sup>(3)</sup> . . . . .	62%	43%	55%
<u>Pressure Pumping:</u>			
Cementing jobs . . . . .	2,337	2,108	2,296
Stimulation jobs . . . . .	992	784	996
<u>Financial Data (in thousands):</u>			
Revenues . . . . .	<u>\$ 275,543</u>	<u>\$ 155,775</u>	<u>\$ 186,157</u>
Operating income . . . . .	<u>\$ 27,367</u>	<u>\$ 556</u>	<u>\$ 15,563</u>

- (1) Baker Hughes, Inc. is an international oilfield service and equipment company. For more than twenty years, it has conducted and published a weekly census of active drilling rigs. Its active rig count is generally regarded as an industry standard for measuring industry activity levels.
- (2) An operating day is defined as a day during which a rig is being operated, mobilized, assembled or dismantled while under contract.
- (3) Utilization rates are calculated by dividing the operating days by the total available days. Available days are calculated by multiplying rigs owned by the days in the period under review.

## Comparison of Years Ended 2000 and 1999

Revenues by business segment for the years ended December 31, 2000 and 1999 are as follows:

	Years Ended December 31,		%
	2000	1999	Increase (Decrease)
	<i>(in thousands)</i>		
<u>Revenues:</u>			
Land Drilling .....	\$ 253,887	\$ 134,870	88.2
Pressure Pumping .....	21,465	20,721	3.6
Other .....	191	184	3.8
	<u>\$ 275,543</u>	<u>\$ 155,775</u>	76.9

Land drilling revenue increased due to improved market conditions and due to revenue generated from recent acquisitions. Acquisitions completed during the years ended December 31, 2000 and 1999 generated an additional \$45.6 million of revenue in the year ended December 31, 2000 compared to the year ended December 31, 1999. Pressure pumping revenue remained stable as the pressure pumping market in Appalachia did not recover as quickly as the land drilling market. These improved market conditions resulted in:

- higher utilization rates, 62% for the year ended December 31, 2000 compared to 43% for the year ended December 31, 1999
- higher rates for services, average revenue per day of \$8,200 for the year ended December 31, 2000 compared to \$7,600 for the year ended December 31, 1999

Direct operating costs, excluding depreciation and amortization, by business segment for the years ended December 31, 2000 and 1999 are as follows:

	Years Ended December 31,		%
	2000	1999	Increase (Decrease)
	<i>(in thousands)</i>		
<u>Direct Operating Costs (excluding depreciation and amortization):</u>			
Land Drilling .....	\$ 195,360	\$ 110,958	76.1
Pressure Pumping .....	13,403	12,219	9.7
Other .....	62	63	(1.6)
	<u>\$ 208,825</u>	<u>\$ 123,240</u>	69.4

The increase in direct operating costs (excluding depreciation and amortization) in the land drilling business segment correlates with the increase in revenue. The percentage increase in direct operating costs (excluding depreciation and amortization) in the pressure pumping business segment outpaced the increase in revenue due to the mix of jobs performed. While there were 437 more pressure pumping jobs performed in the year ended December 31, 2000 compared to 1999, they had lower margins.

Selling, general and administrative expenses increased \$1.8 million during the year ended December 31, 2000 compared to the year ended December 31, 1999. The increase was primarily due to acquisitions consummated in 2000 and 1999.

Provisions for bad debts decreased \$1.0 million for the year ended December 31, 2000 compared to the year ended December 31, 1999. This was primarily due to improved market conditions. Accounts receivable that were previously reserved as a bad debt became collectible.

Included in the December 31, 1999 other charges (income) is a \$2.8 million gain realized as a result of the sale of land drilling assets. The assets sold consisted of UTI's drilling presence in the Appalachian Basin.

Depreciation and amortization expense increased \$4.2 million during the year ended December 31, 2000 compared to the year ended December 31, 1999. This was primarily due to depreciation and amortization on assets acquired during 2000 and 1999.

Interest expense increased \$.9 million during the year ended December 31, 2000 compared to the year ended December 31, 1999. In addition, \$.4 million of interest was capitalized in the year ended December 31, 2000 in conjunction with capital expenditure projects. No interest was capitalized in the year ended December 31, 1999. The increase in incurred interest was primarily due to an increase in average outstanding debt for the year ended December 31, 2000 compared to the same period of 1999. The effective interest rate decreased between years primarily as a result of the early payoff of UTI's subordinated notes. The following table shows other significant data regarding UTI's debt:

	<u>Year Ended</u> <u>December 31, 2000</u>	<u>Year Ended</u> <u>December 31, 1999</u>
Average Debt Outstanding	\$46.0 million	\$32.0 million
Effective Interest Rate	11.9%	13.0%

Income taxes, including the tax benefit on the extraordinary item, increased \$8.9 million during the year ended December 31, 2000 compared to the year ended December 31, 1999. This was primarily due to a profit in 2000 compared to taxable loss in 1999. UTI's effective tax rate for the year ended December 31, 2000 was 37.9%. UTI's effective tax rate for the year ended December 31, 1999 was 14.0%. The effective tax rate in each year varies from the statutory rate primarily for two reasons:

- goodwill amortization associated with acquisitions that is nondeductible for tax purposes
- state income taxes payable

The extraordinary loss incurred during the year ended December 31, 2000 related to the early retirement of the \$25.0 million subordinated notes. The early retirement was financed from the proceeds of the revolving credit facility. The loss consisted primarily of the write-off of the discount, deferred interest and financing fees.

## Comparison of Years Ended 1999 and 1998

Revenues by business segment for the years ended December 31, 1999 and 1998 are as follows:

	Years Ended December 31,		% Increase (Decrease)
	1999	1998	
	<i>(in thousands)</i>		
<u>Revenues:</u>			
Land Drilling .....	\$ 134,870	\$ 162,600	(17.1)
Pressure Pumping .....	20,721	23,365	(11.3)
Other .....	184	192	(4.2)
	<u>\$ 155,775</u>	<u>\$ 186,157</u>	(16.3)

Land drilling revenue decreased despite revenue generated from recent acquisitions. Acquisitions completed during the years ended December 31, 1999 and 1998 generated an additional \$14.0 million of revenue in the year ended December 31, 1999 compared to the year ended December 31, 1998. The decrease was attributable to depressed market conditions. Pressure pumping revenue also decreased as a result of depressed market conditions. These depressed market conditions resulted in:

- lower utilization rates
- lower rates for services

Direct operating costs, excluding depreciation and amortization, by business segment for the years ended December 31, 1999 and 1998 are as follows:

	Years Ended December 31,		% Increase (Decrease)
	1999	1998	
	<i>(in thousands)</i>		
<u>Direct Operating Costs (excluding depreciation and amortization):</u>			
Land Drilling .....	\$ 110,958	\$ 124,779	(11.1)
Pressure Pumping .....	12,219	14,041	(13.0)
Other .....	63	115	(45.2)
	<u>\$ 123,240</u>	<u>\$ 138,935</u>	(11.3)

The decrease in direct operating costs (excluding depreciation and amortization) in the land drilling and pressure pumping business segments correlates with the decrease in revenue in the respective business segment.

Selling, general and administrative expenses decreased \$.6 million during the year ended December 31, 1999 compared to the year ended December 31, 1998. This was primarily due to actions taken to streamline operations during the third quarter of 1998 and the first quarter of 1999. These actions included the relocation of certain accounting functions from Oklahoma City to the Company's corporate headquarters in Houston and personnel changes. The Company also reduced its number of regional operating units.

Provisions for bad debts decreased \$.6 million for the year ended December 31, 1999 compared to the year ended December 31, 1998. This was primarily due to improved collection efforts.

The other charges (income) for the years ended December 31, 1999 and 1998 include charges as a result of the streamlining of certain contract drilling operations and changes to the accounting and administrative functions as well as gains from the sale of long-lived assets. Included in the December 31, 1999 other charges (income) is a \$2.8 million gain realized as a result of the sale of land drilling assets in 1999. The assets sold consisted of UTI's drilling presence in the Appalachian Basin.

Depreciation and amortization expense increased \$4.6 million during the year ended December 31, 1999 compared to the year ended December 31, 1998. This was primarily due to depreciation and amortization on assets acquired during 1999 and 1998.

Interest expense increased \$.4 million during the year ended December 31, 1999 compared to the year ended December 31, 1998. This increase was primarily due to an increase in average outstanding debt for the year ended December 31, 1999 compared to the same period of 1998. The following table shows other significant data regarding UTI's debt:

	<u>Year Ended</u> <u>December 31, 1999</u>	<u>Year Ended</u> <u>December 31, 1998</u>
Average Debt Outstanding	\$32.0 million	\$26.7 million
Effective Interest Rate	13.0%	14.3%

Income taxes decreased \$5.7 million during the year ended December 31, 1999 compared to the year ended December 31, 1998. This was primarily due to a taxable loss in 1999 compared to taxable income in 1998. UTI's effective tax rate for the year ended December 31, 1999 was 14.0%. UTI's effective tax rate for the year ended December 31, 1998 was 40.0%. The effective tax rate in each year varies from the statutory rate primarily for two reasons:

- goodwill amortization associated with acquisitions that is nondeductible for tax purposes
- state income taxes payable in states where a taxable loss was not incurred

## **Liquidity and Capital Resources**

### *Working Capital*

Historically, UTI has needed cash:

- to fund working capital requirements
- to make capital expenditures to replace and expand its drilling rig fleet
- for acquisitions

UTI has funded ongoing operations through:

- available cash
- cash provided from operations
- borrowings

To date, UTI has funded acquisitions with:

- available cash
- borrowings
- issuances of common stock and warrants to purchase common stock

Operations provided net cash of \$49.2 million in 2000 and \$14.4 million in 1999. In 2000, UTI used these funds along with borrowings to fund acquisitions and capital expenditures. Capital expenditures, excluding acquisitions, was \$38.7 million for the year ended December 31, 2000. Capital expenditures, excluding acquisitions, was \$9.4 million for the year ended December 31, 1999.

UTI's working capital at December 31, 2000 was \$18.6 million compared to \$20.9 million at December 31, 1999. The decrease is attributable to UTI's investment of cash into long-term assets, primarily drilling rigs.

At December 31, 2000, UTI had available borrowings of \$39.3 million under its revolving credit facility compared to \$65.0 million of available borrowings at December 31, 1999. The maximum borrowing amount under the revolving credit facility was \$90.0 million at December 31, 2000 compared to \$65.0 million at December 31, 1999. During 2000, UTI borrowed \$25.0 million under the revolving credit facility to repay 12% subordinated notes that were due in April of 2001. Additional borrowings were made against the facility for acquisitions.

#### *Long Term Debt Facilities*

As of December 31, 2000, UTI had outstanding debt of \$55.0 million. This indebtedness included \$50.7 million under the revolving credit facility and \$4.3 million of notes associated with an acquisition completed in 1998.

*Revolving Credit Facility.* On November 22, 1999, UTI entered into a \$65.0 million revolving credit facility. The initial term of the facility is for four years with automatic annual renewals thereafter unless terminated by either party. An early termination fee applies if UTI terminates before the four-year anniversary date. The maximum borrowings under this revolving credit facility were increased to \$75.0 million in May of 2000 and were further increased to \$90.0 million in October of 2000. UTI incurs a fee of .375% per annum on the unused facility amount. Under the revolving credit facility, UTI may use up to \$10.0 million for letters of credit. The amount used for letters of credit decreases the borrowing base of the facility. At December 31, 2000, UTI had a \$2.6 million standby letter of credit issued under the facility. The revolving credit facility calls for periodic interest payments at a floating rate ranging from LIBOR plus 1.75% to LIBOR plus 2.75% or prime. The actual rate charged above LIBOR (1.75% at December 31, 2000) is based on UTI's trailing twelve-month EBITDA. UTI's assets secure the facility.

Among the various covenants that UTI must satisfy under the revolving credit facility are the following two covenants which shall apply whenever UTI's availability under the facility falls below \$20.0 million.

- minimum tangible net worth (as defined in the facility) at the end of each month of \$120.0 million
- minimum trailing twelve month EBITDA (as defined in the facility) of \$15.0 million

The facility also contains provisions regarding UTI's ability to, among other things:

- engage in new lines of business unrelated to UTI's current activities
- enter into mergers, consolidations, asset sales or purchases
- incur liens or debts or make advances, investments or loans
- pay dividends or redeem stock
- incur additional indebtedness

Events of default under the facility include:

- non-payment of amounts due
- misrepresentations and breach of loan covenants
- a change in control (meaning that some person or group has acquired beneficial ownership of 30% or more of UTI)
- certain other events of default

*Promissory Notes.* On July 31, 1998, UTI issued \$7.8 million principal amount of unsecured promissory notes. An early principal payment of \$3.5 million became payable because the average trading value of UTI's common stock for thirty consecutive days exceeded \$15.00 per share on March 9, 2000. The repayments were funded by long-term borrowings under the revolving credit facility. The notes bear interest at 7.0% and, except for the \$3.5 million discussed above, mature on July 31, 2002. The notes were issued in connection with an acquisition.

#### *Future Acquisitions and Capital Needs*

Management believes UTI will be able to meet its working capital, capital expenditure and debt service requirements for the next twelve months by using:

- internally generated cash
- availability under the revolving credit facility
- cash balances on hand

UTI believes that its strong liquidity position will allow it to react quickly to opportunities in the land drilling industry. These opportunities include making strategic acquisitions.

#### **New Accounting Pronouncement**

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). SFAS 133, as amended by Statement of Financial Accounting Standards No. 137, *Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133* which is effective for fiscal years beginning after June 15, 2000, requires all derivatives to be recognized at fair value on the balance sheet. UTI adopted SFAS 133 on January 1, 2001. The change is not expected to have a significant effect on UTI's financial statements.

## **Risks Associated with Forward-Looking Statements**

From time to time, UTI may make certain statements that contain “forward-looking” information. Forward-looking statements speak to the future. The following words and similar expressions are intended to identify such forward-looking statements:

- anticipate
- believe
- could
- estimate
- expect
- intend
- may
- plan
- predict
- project
- will

Forward-looking statements may be made by management both orally or in writing. Written forward-looking statements may appear:

- in press releases
- as part of the “Business”, “Properties” and “Management’s Discussion and Analysis of Financial Conditions and Results of Operations” contained in this report
- in UTI’s other filings with the Securities and Exchange Commission

UTI believes that the expectations reflected in these forward-looking statements are reasonable. However, UTI cannot give any assurance that such expectations will materialize. These forward-looking statements are subject to:

- risks
- uncertainties
- assumptions

If any of these risks, uncertainties or assumptions materialize, actual results of current and future operations may not be as expected. Therefore, readers should not place undue certainty on these forward-looking statements. These forward-looking statements speak only as of their dates.



Among the factors that will directly affect UTI's results of operations and the contract drilling service industry are:

- changes in the price of oil and natural gas
- the volatility of the contract drilling service industry
- UTI's ability to successfully integrate recent acquisitions
- presence of competitors with greater financial resources
- labor shortages
- contractual risk associated with turnkey and footage contracts
- operating risks inherent in the contract drilling service industry, such as blowouts, explosions, sour gas, well fires and spills
- domestic and worldwide political stability and economic growth
- risks associated with UTI's successful execution of internal operating plans
- regulatory uncertainties
- legal proceedings
- drill pipe shortages
- exposure to environmental liabilities
- currency risk factors

See also, the factors affecting the level of drilling activity discussed in "Item 1. Business-Industry Conditions" on page 8 of this Annual Report on Form 10-K.

#### **Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

UTI has exposure to market risk associated with the floating rate portion of the interest charged on the \$50.7 million outstanding under its revolving credit facility. The revolving credit facility, which matures on November 22, 2003, bears interest at LIBOR plus 1.75% or prime. UTI's exposure to interest rate risk due to changes in LIBOR or prime is not expected to be material and at December 31, 2000, the fair value of the obligation approximates its related carrying value because the obligation bears interest at the current market rate.

UTI's fair value of fixed rate debt as of December 31, 2000 is \$4.2 million and the carrying value is \$4.3 million. The fair value of the fixed rate debt is based on the estimated yield to maturity.

With the Phelps Drilling acquisition UTI now conducts some business in Canadian dollars. The exchange rate between Canadian dollars and U.S. dollars has fluctuated over the last ten years. If the value of the Canadian dollar against the U.S. dollar weakens, revenues and earnings of UTI's Canadian operations will be reduced when they are translated to U.S. dollars. Also, the value of UTI's Canadian net assets in U.S. dollars may decline.

#### **Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Financial Statements of UTI meeting the requirements of Regulation S-X (except Section 210.3-05 and Article 11 thereof) are included on pages F-1 through F-28 hereof.

Other financial statements and schedules required under Regulation S-X, if any, are filed under Item 14, Exhibits, Financial Statement Schedules and Reports on Form 8-K of this Form 10-K.

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**PART III**

The information required by Part III, Items 10 through 13, of Form 10-K is incorporated by reference from UTI's proxy statement filed pursuant to Regulation 14A which involves the election of directors. This proxy statement shall be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2000, which is the end of the fiscal year.

**PART IV**

**Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K**

(a) The following documents are filed as part of this Annual Report on Form 10-K:		Page
(1) Financial Statements of UTI Energy Corp.:		
Contents .....		F-1
Report of Independent Auditors .....		F-2
Consolidated Balance Sheets at December 31, 2000 and 1999 .....		F-3
Consolidated Statements of Operations for the Years Ended December 31, 2000, 1999 and 1998 .....		F-4
Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2000, 1999 and 1998 .....		F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 2000, 1999 and 1998 .....		F-6
Notes to Consolidated Financial Statements .....		F-7
(2) Financial Statement Schedule:		
Schedule II - Valuation and Qualifying Accounts .....		S-1

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or do not apply and therefore have been omitted.

(3) The following Exhibits are filed as part of this Annual Report on Form 10-K.

<b>Exhibit Number</b>	<b>Title or Description</b>
2.1	- Agreement and Plan of Merger, dated April 26, 1999, by and between UTI Energy Corp. and Norton Drilling Services, Inc. (incorporated by reference to Exhibit 2.1 to UTI's Current Report on Form 8-K dated July 26, 1999).
2.2 <sup>(2)</sup>	- Agreement and Plan of Merger, dated February 4, 2001, by and between UTI Energy Corp. and Patterson Energy, Inc. Pursuant to Item 601(b)(2) of Regulation S-K, schedules and similar attachments to the Agreement and Plan of Merger have not been filed with this exhibit. The Patterson Energy, Inc. Disclosure Schedule and the UTI Energy Corp. Disclosure Schedule contain information relating to the representations and warranties contained in Article II and Article III, respectively, of the Agreement and Plan of Merger. UTI agrees to furnish supplementally any omitted schedule to the Securities and Exchange Commission upon request.
3.1	- Restated Certificate of Incorporation of UTI Energy Corp. dated July 25, 2000 (incorporated by reference to Exhibit 3.1 to UTI's Registration Statement on Form S-3 (No. 333-42576)).
3.2	- By-laws of UTI Energy Corp., as amended (incorporated by reference to Exhibit 3.3 to UTI's Annual Report on Form 10-K for the year ended December 31, 1993).
3.3	- Rights Agreement, dated February 26, 1999, between UTI Energy Corp. and ChaseMellon Shareholder Services, L.L.C. as Rights Agent (incorporated by reference to Exhibit 4.1 to UTI's Current Report on Form 8-K, dated February 26, 1999, filed with the Securities and Exchange Commission on March 4, 1999).
3.4 <sup>(2)</sup>	- Amendment to Rights Agreement, dated February 9, 2001, between UTI Energy Corp. and Mellon Investor Services LLC.
3.5	- Certificate of Designation, Powers, Preferences and Rights of Series I Preferred Stock dated February 26, 1999 (incorporated by reference to Exhibit 4.2 to UTI's Current Report on Form 8-K, dated February 26, 1999, filed with the Securities and Exchange Commission on March 4, 1999).
3.6	- Form of Right Certificate (incorporated by reference to Exhibit 4.3 to UTI's Current Report on Form 8-K, dated February 26, 1999, filed with the Securities and Exchange Commission on March 4, 1999).
4.1	- See Exhibit No. 3.1 and 3.2 for provisions of the Restated Certificate of Incorporation and amended By-laws of UTI Energy Corp. defining the rights of the holders of common stock.
4.2	- Form of Common Stock Certificate (incorporated by reference to Amendment No. 1 to UTI's Registration Statement on Form S-1 (No. 33-69726)).
4.3	- Registration Rights Agreement with Bear Stearns & Co. Inc., dated March 25, 1994, as assigned to Remy Capital Partners III, L.P. (incorporated by reference to Exhibit 10.17 to UTI's Annual Report on Form 10-K for the year ended December 31, 1993).

<b>Exhibit Number</b>	<b>Title or Description</b>
4.4 <sup>(1)</sup>	- Amended and Restated UTI Energy Corp. 1996 Employee Stock Option Plan (incorporated by reference to Exhibit 4.6 to UTI's Annual Report on Form 10-K for the year ended December 31, 1997).
4.5	- Amended and Restated UTI Energy Corp. Non-Employee Director Stock Option Plan (incorporated by reference to Exhibit 4.18 to UTI's Annual Report on Form 10-K for the year ended December 31, 1997).
4.6 <sup>(1)</sup>	- Amended and Restated UTI Energy Corp. 1997 Long-Term Incentive Plan (incorporated by reference to Exhibit 4.2 to UTI's Annual Report on Form 10-K for the year ended December 31, 1997).
4.7 <sup>(1)</sup>	- Amendment No. 1 to the Amended and Restated UTI Energy Corp. 1997 Long-Term Incentive Plan adopted by the Board of Directors on April 26, 1999 (incorporated by reference to Exhibit 4.11 to UTI's Annual Report on Form 10-K for the year ended December 31, 1999).
4.8 <sup>(1)</sup>	Amendment No. 2 to the Amended and Restated UTI Energy Corp. 1997 Long-Term Incentive Plan adopted by the Board of Directors on April 27, 2000 (incorporated by reference to Exhibit 4.3 to UTI's Registration Statement on Form S-8 (No. 333-52916)).
4.9	- Form of Warrant to purchase an aggregate of 150,000 shares of common stock at \$13.25 per share, which was issued to the former shareholders of Suits Enterprises, Inc. listed on such exhibit in the amounts set forth opposite such former shareholder's name on such exhibit (incorporated by reference from UTI's Quarterly Report on Form 10-Q for the six months ended June 30, 1998).
4.10	- Form of Warrant to purchase an aggregate of 50,000 shares of common stock at \$17.50 per share, which was issued to the former shareholders of Suits Enterprises, Inc. listed on such exhibit in the amounts set forth opposite such former shareholder's name on such exhibit (incorporated by reference from UTI's Quarterly Report on Form 10-Q for the six months ended June 30, 1998).
4.11	- Form of Note Payable, in the aggregate amount of \$7.79 million, which was issued to the former shareholders of Suits Enterprises, Inc. listed on such exhibit in the amounts set forth opposite such former shareholder's name on such exhibit (incorporated by reference from UTI's Quarterly Report on Form 10-Q for the six months ended June 30, 1998).
4.12	- Loan and Security Agreement, dated November 22, 1999, by and among The CIT Group/Business Credit, Inc., GMAC Business Credit, LLC and Foothill Capital Corporation as Lenders, UTI Energy Corp., UTICO, Inc., UTICO Hard Rock Boring, Inc., International Petroleum Service Company and Norton Drilling Services, Inc. as Guarantors and UTI Drilling, L.P., Norton Drilling Company, Universal Well Services, Inc., UTI Management Services, L.P. and Suits Drilling Company as Borrowers (incorporated by reference to Exhibit 4.15 to UTI's Annual Report on Form 10-K for the year ended December 31, 1999).

Exhibit Number	Title or Description
4.13	- First Amendment dated as of May 2, 2000 to the Loan and Security Agreement, dated as of November 22, 1999, by and among The CIT Group/Business Credit, Inc., GMAC Business Credit, LLC and Foothill Capital Corporation as Lenders, UTI Energy Corp., UTICO, Inc., UTICO Hard Rock Boring, Inc., International Petroleum Service Company and Norton Drilling Services, Inc. as Guarantors and UTI Drilling, L.P., Norton Drilling LP, a successor in interest by conversion to Norton Drilling Company, Universal Well Services, Inc., UTI Management Services, L.P. and Suits Drilling Company as Borrowers (incorporated by reference to Exhibit 4.16 to UTI's Registration Statement on Form S-3 (No. 333-42576)).
4.14	- Second Amendment dated as of May 18, 2000 to the Loan and Security Agreement, dated as of November 22, 1999, by and among The CIT Group/Business Credit, Inc., GMAC Business Credit, LLC and Foothill Capital Corporation as Lenders, UTI Energy Corp., UTICO, Inc., UTICO Hard Rock Boring, Inc., International Petroleum Service Company and Norton Drilling Services, Inc. as Guarantors and UTI Drilling, L.P., Norton Drilling LP, a successor in interest by conversion to Norton Drilling Company, Universal Well Services, Inc., UTI Management Services, L.P. and Suits Drilling Company as Borrowers (incorporated by reference to Exhibit 4.17 to UTI's Registration Statement on Form S-3 (No. 333-42576)).
4.15	- Third Amendment dated as of October 18, 2000 to the Loan and Security Agreement, dated as of November 22, 1999, by and among The CIT Group/Business Credit, Inc., Foothill Capital Corporation, GMAC Business Credit, LLC and The CIT Group/Equipment Financing, Inc. as Lenders, UTI Energy Corp., UTICO, Inc., UTICO Hard Rock Boring, Inc., International Petroleum Service Company, Norton Drilling Services, Inc. and Norton Drilling Company Mexico, Inc. as Guarantors and UTI Drilling, L.P., Norton Drilling LP, a successor in interest by conversion to Norton Drilling Company, Universal Well Services, Inc., UTI Management Services, L.P. and Suits Drilling Company as Borrowers (incorporated by reference from UTI's Quarterly Report on Form 10-Q for the nine months ended September 30, 2000).
10.1	- For additional material contracts see Exhibits 4.3 through 4.14.
10.2 <sup>(1)</sup>	- Amended and Restated Employment Agreement with Vaughn E. Drum dated December 19, 1996 (incorporated by reference to Exhibit 10.4 to UTI's Current Report on Form 8-K dated January 27, 1997).
21.1 <sup>(2)</sup>	- List of subsidiaries of UTI.
23.1 <sup>(2)</sup>	- Consent of Ernst & Young LLP.
(1)	Management contract or compensatory plan, identified as required by Item 14(a)(3) of Form 10-K.
(2)	Filed herewith as part of this Form 10-K.

As permitted by Item 601(b)(4)(iii)(A) of Regulation S-K, UTI has not filed with this Form 10-K certain instruments defining the right of holders of long-term debt of UTI and its subsidiaries. This is because the total amount of securities authorized under any of such instruments does not exceed 10% of the total assets of UTI and its subsidiaries on a consolidated basis. UTI agrees to furnish a copy of any of these agreements to the Securities and Exchange Commission upon request.

(b) Reports on Form 8-K

To report an Underwriting Agreement, pursuant to Item 5 of Form 8-K, UTI filed a Form 8-K with the Securities and Exchange Commission dated December 19, 2000.

To report an Underwriting Agreement, pursuant to Item 5 of Form 8-K, UTI filed a Form 8-K with the Securities and Exchange Commission dated December 12, 2000.

**UTI ENERGY CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**

**Contents**

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Auditors .....	F-2
Consolidated Balance Sheets .....	F-3
Consolidated Statements of Operations .....	F-4
Consolidated Statements of Changes in Shareholders' Equity .....	F-5
Consolidated Statements of Cash Flows .....	F-6
Notes to Consolidated Financial Statements .....	F-7

## Report of Independent Auditors

To the Board of Directors  
UTI Energy Corp.

We have audited the accompanying consolidated balance sheets of UTI Energy Corp. as of December 31, 2000 and 1999 and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of UTI Energy Corp. at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Houston, Texas  
February 16, 2001



**UTI ENERGY CORP.**  
**CONSOLIDATED BALANCE SHEETS**

(All share amounts reflect the 2:1 stock split effective October 3, 2000)  
(in thousands)

	December 31,	
	<u>2000</u>	<u>1999</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents .....	\$ 7,561	\$ 7,547
Accounts receivable, net of allowance for doubtful accounts of \$1,959 in 2000 and \$3,143 in 1999 .....	59,482	33,522
Federal income tax receivables .....	-	5,043
Materials and supplies .....	767	748
Deferred income taxes .....	1,957	1,762
Prepaid expenses .....	<u>2,387</u>	<u>1,487</u>
	72,154	50,109
PROPERTY AND EQUIPMENT		
Land .....	1,150	1,224
Buildings and improvements .....	3,539	3,538
Machinery and equipment .....	316,288	245,033
Oil and natural gas working interests .....	<u>1,359</u>	<u>1,856</u>
	322,336	251,651
Less accumulated depreciation and amortization .....	<u>84,049</u>	<u>62,807</u>
	238,287	188,844
GOODWILL, less accumulated amortization of \$5,144 in 2000 and \$3,616 in 1999 .....	17,733	19,261
OTHER ASSETS .....	<u>1,633</u>	<u>2,368</u>
	<u>\$ 329,807</u>	<u>\$ 260,582</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable .....	\$ 37,449	\$ 19,672
Accrued payroll and related costs .....	7,056	4,536
Accrued workers compensation .....	3,999	871
Other accrued expenses .....	<u>5,061</u>	<u>4,135</u>
	53,565	29,214
LONG-TERM DEBT .....	55,000	32,196
DEFERRED INCOME TAXES .....	41,816	41,668
OTHER LIABILITIES .....	438	472
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Preferred Stock, \$.01 par value, 5,000 shares authorized, 0 shares issued or outstanding in 2000 and 1999 .....	-	-
Common Stock, \$.001 par value, 100,000 shares authorized, 38,772 shares issued and 37,566 outstanding in 2000, 36,865 shares issued and 35,659 outstanding in 1999 .....	38	37
Additional capital .....	152,377	144,293
Retained earnings .....	36,548	22,707
Accumulated other comprehensive income .....	30	-
Treasury Stock, 1,206 shares in 2000 and 1999, at cost .....	<u>(10,005)</u>	<u>(10,005)</u>
	178,988	157,032
	<u>\$ 329,807</u>	<u>\$ 260,582</u>

See accompanying notes.

**UTI ENERGY CORP.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(All per share and share amounts reflect the 2:1 stock split effective October 3, 2000)  
*(in thousands, except per share amounts)*

	<b>Years Ended December 31,</b>		
	<b>2000</b>	<b>1999</b>	<b>1998</b>
REVENUES .....	\$ 275,543	\$ 155,775	\$ 186,157
<b>COSTS AND EXPENSES</b>			
Direct operating costs (excluding depreciation and amortization) .	208,825	123,240	138,935
Selling, general and administrative .....	11,959	10,170	10,781
Provisions for bad debts .....	(456)	548	1,143
Other charges (income) .....	(483)	(2,861)	206
Depreciation and amortization .....	<u>28,331</u>	<u>24,122</u>	<u>19,529</u>
	<u>248,176</u>	<u>155,219</u>	<u>170,594</u>
OPERATING INCOME .....	27,367	556	15,563
<b>OTHER INCOME (EXPENSE)</b>			
Interest expense .....	(5,111)	(4,168)	(3,815)
Interest income .....	378	602	1,084
Other, net .....	<u>170</u>	<u>(17)</u>	<u>271</u>
	<u>(4,563)</u>	<u>(3,583)</u>	<u>(2,460)</u>
INCOME (LOSS) BEFORE INCOME TAXES .....	22,804	(3,027)	13,103
INCOME TAXES .....	<u>8,634</u>	<u>(425)</u>	<u>5,235</u>
INCOME (LOSS) BEFORE EXTRAORDINARY ITEM .....	14,170	(2,602)	7,868
EXTRAORDINARY ITEM, net of tax of \$197 .....	<u>(329)</u>	<u>-</u>	<u>-</u>
NET INCOME (LOSS) .....	<u>\$ 13,841</u>	<u>\$ (2,602)</u>	<u>\$ 7,868</u>
BASIC EARNINGS (LOSS) PER COMMON SHARE .....	<u>\$ 0.38</u>	<u>\$ (0.08)</u>	<u>\$ 0.24</u>
DILUTED EARNINGS (LOSS) PER COMMON SHARE .....	<u>\$ 0.36</u>	<u>\$ (0.08)</u>	<u>\$ 0.23</u>
<b>AVERAGE COMMON SHARES OUTSTANDING</b>			
Basic .....	36,860	33,984	32,139
Diluted .....	38,817	33,984	33,590

*See accompanying notes.*

**UTI ENERGY CORP.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**(All share amounts reflect the 2:1 stock split effective October 3, 2000)**  
**(in thousands)**

	Common Stock		Additional Capital	Retained Earnings	Restricted Stock	Accumulated Other Comprehensive Income	Treasury Stock	Total
	Number of Shares	Par \$.001						
Balance at December 31, 1997 . .	32,294	\$ 32	\$ 120,192	\$17,441	\$ (45)	\$ -	\$ -	\$137,620
Net income . . . . .	-	-	-	7,868	-	-	-	7,868
Redemption of Redeemable Stock . . . . .	-	1	6,701	-	-	-	(6,702)	-
Warrants issued . . . . .	-	-	411	-	-	-	-	411
Exercise of options . . . . .	313	-	1,505	-	-	-	-	1,505
Purchase of Treasury Stock . . . . .	(588)	-	-	-	-	-	(3,303)	(3,303)
Vesting of restricted stock plan . . . . .	-	-	-	-	45	-	-	45
Balance at December 31, 1998 . .	32,019	33	128,809	25,309	-	-	(10,005)	144,146
Net loss . . . . .	-	-	-	(2,602)	-	-	-	(2,602)
Issuance of Common Stock . . . . .	2,596	3	13,262	-	-	-	-	13,265
Exercise of options . . . . .	1,044	1	2,222	-	-	-	-	2,223
Balance at December 31, 1999 . .	35,659	37	144,293	22,707	-	-	(10,005)	157,032
Net income . . . . .	-	-	-	13,841	-	-	-	13,841
Foreign currency translation . . . . .	-	-	-	-	-	30	-	30
Exercise of warrants . . . . .	1,054	-	694	-	-	-	-	694
Exercise of options . . . . .	853	1	7,390	-	-	-	-	7,391
Balance at December 31, 2000 . .	<u>37,566</u>	<u>\$ 38</u>	<u>\$ 152,377</u>	<u>\$36,548</u>	<u>\$ -</u>	<u>\$ 30</u>	<u>\$(10,005)</u>	<u>\$178,988</u>

*See accompanying notes.*

**UTI ENERGY CORP.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
*(in thousands)*

	<b>Years Ended December 31,</b>		
	<b>2000</b>	<b>1999</b>	<b>1998</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income (loss) .....	\$ 13,841	\$ (2,602)	\$ 7,868
Adjustments to reconcile net income to net cash provided by operations			
Depreciation .....	26,136	21,924	17,630
Amortization .....	2,195	2,198	1,899
Deferred income taxes .....	6	2,208	2,549
Amortization of debt discount .....	594	475	475
Stock compensation expense .....	-	-	45
Tax benefit on exercised stock options .....	4,353	699	828
Provisions for bad debts .....	-	282	1,104
Gain on disposal of fixed assets .....	(483)	(3,121)	(579)
Change in operating assets and liabilities, net of effect of businesses acquired			
Receivables and prepaids .....	(21,816)	(4,079)	5,445
Materials and supplies .....	(19)	(109)	477
Accounts payable and accruals .....	24,350	(2,255)	(3,450)
Other .....	35	(1,220)	(2,723)
Net cash provided by operating activities .....	49,192	14,400	31,568
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of property and equipment .....	(38,669)	(9,444)	(37,429)
Acquisitions, net of cash .....	(38,820)	(7,540)	(34,300)
Net proceeds from disposition .....	-	4,935	-
Proceeds from sale of property and equipment .....	2,404	1,286	1,530
Net cash used by investing activities .....	(75,085)	(10,763)	(70,199)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of long-term debt .....	61,976	-	-
Repayments of long-term debt .....	(39,766)	(7,951)	(52)
Repurchased stock .....	-	-	(10,005)
Proceeds from issuance of Common Stock .....	3,731	1,524	678
Net cash provided (used) by financing activities .....	25,941	(6,427)	(9,379)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> .....	48	(2,790)	(48,010)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b> .....	(34)	-	-
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b> .....	7,547	10,337	58,347
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b> .....	<u>\$ 7,561</u>	<u>\$ 7,547</u>	<u>\$ 10,337</u>

*See accompanying notes.*

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(All share amounts reflect the 2:1 stock split effective October 3, 2000)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Business*

UTI Energy Corp. is a leading provider of onshore contract drilling services to companies that explore for and produce oil and natural gas. UTI was incorporated in Delaware and commenced its current business on December 31, 1986. UTI operates one of the largest fleets of drilling rigs used to drill oil and natural gas wells on land in North America. A drilling rig includes the structure, power source and machinery necessary to allow a drill bit to penetrate rock to a depth desired by the customer. UTI's drilling rigs operate in the oil and natural gas producing basins of Texas, Oklahoma, New Mexico and Western Canada. As of December 31, 2000, UTI's fleet consisted of 144 land drilling rigs.

UTI also provides pressure pumping services in the Appalachian Basin. Pressure pumping services consist primarily of well stimulation and cementing for the completion of new wells and remedial work on existing wells. Well stimulation involves processes inside a well designed to enhance the flow of oil, natural gas or other desired substances from the well. Cementing is the process of inserting material between the hole and the pipe to center and stabilize the pipe in the hole.

*Principles of Consolidation*

The consolidated financial statements include the accounts of UTI and its subsidiaries. All of UTI's subsidiaries are wholly owned. Intercompany accounts and transactions have been eliminated in consolidation.

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

*Cash and Cash Equivalents*

UTI considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

*Materials and Supplies*

Materials and supplies are composed of replacement parts and supplies held for use in the operations of UTI. Material and supplies are stated at the lower of cost or market. Cost is determined by the first in, first out method.

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(All share amounts reflect the 2:1 stock split effective October 3, 2000)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Property and Equipment*

Property and equipment are stated at cost. Improvements are capitalized and depreciated over the period of benefit. UTI periodically reviews its long-lived assets for impairment. Provisions for impairment are charged to income when indicators of impairment are present and when it is considered probable that the carrying values of producing asset groups may not be recovered over their remaining service lives based on estimates of future net cash flows on an undiscounted basis.

Upon retirement or other disposal of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts. Any gains or losses are included in results of operations. Depreciation is determined by the straight-line method over the estimated useful lives of the related assets which are as follows:

- buildings--30 years
- building improvements--7-10 years
- machinery and equipment--2-15 years

UTI capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of the assets. For the year ended December 31, 2000, UTI capitalized approximately \$.4 million of interest in connection with various capital projects. Prior to 2000, capitalized interest was not significant.

*Oil and Natural Gas Working Interests*

UTI accounts for its oil and natural gas operations under the successful efforts method of accounting. Under the successful efforts method of accounting, costs which result directly in the discovery of oil and natural gas reserves and all development costs are capitalized. Exploration costs which do not result directly in discovering oil and natural gas reserves are charged to expense as incurred. The capitalized costs are depreciated, depleted and amortized on the units-of-production method, based on estimates of recoverable proved developed oil and natural gas reserves of each respective field.

*Goodwill*

The excess of the purchase price over the estimated fair value of net assets acquired is accounted for as goodwill and is amortized on a straight-line basis over 15 years. UTI's management periodically assesses recorded goodwill, net of accumulated amortization, for impairment based on the undiscounted cash flows associated with the assets acquired compared to the carrying amount of those assets. Management believes that there have been no events or circumstances which affect the recoverability of its recorded goodwill.

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(All share amounts reflect the 2:1 stock split effective October 3, 2000)

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Foreign Currency Translation*

The U.S. dollar is the functional currency for all of UTI's operations except for UTI's Canadian operations which uses the Canadian dollar as the functional currency. The effects of exchange rate changes are reflected as a separate component of shareholders' equity.

*Revenue Recognition*

Revenues are recognized when services have been performed. Revenues from footage and turnkey drilling contracts are recognized using the percentage of completion method of accounting. Any losses are provided for in the period in which the loss is determinable.

*Stock-Based Compensation*

UTI follows the method of accounting for employee stock compensation plans prescribed by APB No. 25, which is permitted by Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). In accordance with APB No. 25, UTI has not recognized compensation expense for stock options. This is because the exercise price of the options equal the market price of the underlying stock on the date of grant, which is the measurement date.

*New Accounting Pronouncement*

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). SFAS 133, as amended by Statement of Financial Accounting Standards No. 137, *Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133*, which is effective for fiscal years beginning after June 15, 2001, and requires all derivatives to be recognized at fair value on the balance sheet. UTI adopted SFAS 133 on January 1, 2001. The change is not expected to have a significant effect on UTI's financial statements.

*Reclassifications*

Certain items in the prior years' financial statements have been reclassified to conform with the presentation in the current year.

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(All share amounts reflect the 2:1 stock split effective October 3, 2000)

**2. ACQUISITIONS**

(a) Peterson Drilling Company

On April 9, 1998, UTI acquired Peterson Drilling Company for a total purchase price of \$20.4 million in cash. The acquisition has been accounted for under the purchase method of accounting. Peterson's operating results since April 9, 1998 have been consolidated with the operating results of UTI. Peterson's assets included eight land drilling rigs, drilling equipment and approximately \$4.5 million in net working capital. The fair market value of the assets acquired were estimated and the purchase price was allocated as follows (*in thousands*):

Property and Equipment .....	\$ 20,318
Goodwill .....	3,607
Other Assets Assumed, net .....	3,835
Deferred Taxes .....	<u>(7,360)</u>
Purchase Price .....	<u>\$ 20,400</u>

(b) LaMunyon Drilling Corporation

On June 24, 1998, UTI acquired the land drilling assets of LaMunyon Drilling Corporation for \$12.2 million in cash. The acquisition has been accounted for using the purchase method of accounting. LaMunyon's operating results since June 24, 1998 have been consolidated with the operating results of UTI. The acquired assets consisted of five land drilling rigs, drilling equipment, rolling stock and other assets used in LaMunyon's land drilling business. The fair market value of the drilling rigs and related equipment was estimated and the purchase price was allocated as follows (*in thousands*):

Property and Equipment .....	\$ 12,560
Goodwill .....	-
Liabilities Assumed .....	<u>(360)</u>
Purchase Price .....	<u>\$ 12,200</u>



**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(All share amounts reflect the 2:1 stock split effective October 3, 2000)

**2. ACQUISITIONS (Continued)**

(c) Suits Enterprises, Inc.

On July 31, 1998, UTI acquired Suits Enterprises, Inc. for approximately \$11.1 million. This \$11.1 million was comprised of \$2.9 million in cash, \$7.8 million in 7% four-year notes and five-year warrants to purchase 200,000 shares of UTI's common stock. Warrants to purchase 150,000 shares of UTI's common stock are exercisable at \$13.25 per share and warrants to purchase 50,000 shares of UTI's common stock are exercisable at \$17.50 per share. Using the Black-Scholes valuation model, the warrants were valued at \$2.14 and \$1.81 per respective warrant. Warrants to purchase 78,750 shares of UTI's common stock have been exercised through December 31, 2000. The acquisition has been accounted for using the purchase method of accounting. Suits' operating results since July 31, 1998 have been consolidated with the operating results of UTI. Suits' assets included seven land drilling rigs, drilling equipment and rolling stock. The fair market value of the drilling rigs and related equipment was estimated and the purchase price was allocated as follows (*in thousands*):

Property and Equipment .....	\$ 17,856
Goodwill .....	-
Deferred Taxes .....	(6,460)
Other Liabilities Assumed, net .....	(306)
Purchase Price .....	<u>\$ 11,090</u>

(d) Norton Drilling Services, Inc.

On July 27, 1999, UTI acquired Norton Drilling Services, Inc., for approximately 2.6 million shares of UTI's common stock. The stock was valued at \$13.3 million or \$5.12 per share based on the average price of UTI's common stock shortly before and after the acquisition was announced. UTI also repaid approximately \$8.0 million of Norton's existing debt upon the acquisition. The acquisition has been accounted for under the purchase method of accounting. Norton's operating results since July 27, 1999 have been consolidated with the operating results of UTI. Norton's assets included sixteen land drilling rigs, drilling equipment and rolling stock. The fair market value of the drilling rigs and related equipment was estimated and the purchase price was allocated as follows (*in thousands*):

Property and Equipment .....	\$ 31,381
Goodwill .....	-
Deferred Taxes .....	(6,073)
Long-Term Debt Assumed .....	(7,951)
Other Liabilities Assumed, net .....	(4,073)
Purchase Price .....	<u>\$ 13,284</u>

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(All share amounts reflect the 2:1 stock split effective October 3, 2000)

**2. ACQUISITIONS (Continued)**

(e) Schneider Drilling Corporation

On December 14, 1999, UTI acquired the land drilling assets of Schneider Drilling Corporation for \$7.5 million in cash. The acquisition has been accounted for under the purchase method of accounting. Schneider's operating results since December 14, 1999 have been consolidated with the operating results of UTI. Schneider's assets included three land drilling rigs, major components for two additional land drilling rigs and drilling equipment. The fair market value of the drilling rigs and related equipment was allocated as follows (*in thousands*):

Property and Equipment .....	\$ 7,712
Goodwill .....	-
Other Liabilities Assumed .....	<u>(212)</u>
Purchase Price .....	<u>\$ 7,500</u>

(f) Phelps Drilling International Ltd.

On May 5, 2000, UTI acquired the land drilling operations of Phelps Drilling International Ltd. for \$29.6 million in cash. Phelps' assets and operations are located in the Canadian provinces of Alberta, Saskatchewan and British Columbia. The acquisition has been accounted for under the purchase method of accounting. Phelps' operating results since May 5, 2000 have been consolidated with the operating results of UTI. The acquired assets consisted of fourteen land drilling rigs, drilling equipment and other equipment used in Phelps' land drilling business. The fair market value of the drilling rigs and related equipment was estimated and the purchase price was allocated as follows (*in thousands*):

Property and Equipment .....	\$ 31,170
Goodwill .....	-
Other Liabilities Assumed, net .....	<u>(1,559)</u>
Purchase Price .....	<u>\$ 29,611</u>

(g) Asset Swap

On May 15, 2000, UTI, in a nonmonetary exchange of similar productive assets, acquired a drilling rig in exchange for certain drilling rig components and drill pipe with a net book value of approximately \$970,000. No gain or loss was recognized on this transaction.

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(All share amounts reflect the 2:1 stock split effective October 3, 2000)

**2. ACQUISITIONS (Continued)**

(h) Asset Acquisitions

On September 1, 2000, UTI acquired one drilling rig for \$1.25 million in cash which was placed in service in October of 2000.

On September 5, 2000, UTI acquired three drilling rigs for \$6.4 million in cash.

**3. LONG-TERM DEBT**

UTI's long-term debt at December 31, 2000 and 1999 consisted of the following:

	December 31,	
	2000	1999
	(in thousands)	
Revolving credit facility . . . . .	\$ 50,710	\$ -
Subordinated notes . . . . .	-	25,000
Promissory notes . . . . .	4,290	7,790
	<u>55,000</u>	<u>32,790</u>
Less: unamortized discount . . . . .	<u>-</u>	<u>594</u>
	<u>\$ 55,000</u>	<u>\$ 32,196</u>

*Revolving Credit Facility*

On November 22, 1999, UTI entered into a \$65.0 million revolving credit facility. The initial term of the facility is for four years with automatic annual renewals thereafter unless terminated by either party. An early termination fee applies if UTI terminates before the four-year anniversary date. The maximum borrowings under this revolving credit facility were increased to \$75.0 million in May of 2000 and were increased to \$90.0 million in October of 2000. UTI incurs a fee of .375% per annum on the unused facility amount. Under the revolving credit facility, UTI may use up to \$10.0 million for letters of credit. The amount used for letters of credit decreases the borrowing base of the facility. At December 31, 2000, UTI had a \$2.6 million standby letter of credit issued under the facility. The revolving credit facility calls for periodic interest payments at a floating rate ranging from LIBOR plus 1.75% to LIBOR plus 2.75% or prime. The actual rate charged above LIBOR (1.75% at December 31, 2000) is based on UTI's trailing twelve-month EBITDA. UTI's assets secure the facility. The facility has restrictions customary in financial instruments of this type including restrictions on certain investments, acquisitions and loans. If availability under the facility is less than \$20.0 million then covenants related to net worth and earnings before income taxes and depreciation apply.

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(All share amounts reflect the 2:1 stock split effective October 3, 2000)

**3. LONG-TERM DEBT (Continued)**

Prior to entering into the \$65.0 million revolving credit agreement, UTI maintained a \$30.0 million revolving credit agreement with a bank. There were no borrowings under this facility in 1999. A \$1.6 million standby letter of credit was issued under this agreement.

*Subordinated Notes*

On April 11, 1997, UTI issued \$25.0 million principal amount of 12.0% subordinated notes due 2001. The proceeds of the notes were \$24.5 million after discount. The subordinated notes were issued along with seven-year warrants to purchase 2.4 million shares of UTI's common stock at an exercise price of \$5.42 per share. UTI assigned a value of \$1.4 million to the warrants issued. UTI was amortizing the cost of the warrants to interest expense over the life of the borrowing. The notes were repaid in 2000 from the proceeds of borrowings under the revolving credit facility.

*Promissory Notes*

On July 31, 1998, UTI issued \$7.8 million principal amount of unsecured promissory notes. An early principal payment of \$3.5 million became payable because the average trading value of UTI's common stock for thirty consecutive days exceeded \$15.00 per share on March 9, 2000. The repayments were funded by long-term borrowings under the revolving credit facility. The notes bear interest at 7% and, except for the \$3.5 million discussed above, mature on July 31, 2002. The notes were issued in connection with the acquisition of Suits.

**4. LEASES**

Future minimum payments, for each year and in the aggregate, under noncancellable operating leases with initial or remaining terms of one year or more consist of the following at December 31, 2000 (*in thousands*):

2001 .....	\$	610
2002 .....		417
2003 .....		144
2004 .....		70
2005 .....		<u>23</u>
Total minimum lease payments .....	\$	<u><u>1,264</u></u>

The following table shows the approximate rental expense, consisting primarily of daily rental charges for the use of drilling equipment, for the last three years (*in thousands*):

<u>2000</u>	<u>1999</u>	<u>1998</u>
\$6,822	\$3,059	\$2,459

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(All share amounts reflect the 2:1 stock split effective October 3, 2000)

**5. CONTINGENCIES**

UTI is involved in several claims arising in the ordinary course of business. UTI's management believes that all of these claims are covered by insurance or that these matters will not have a material adverse effect on UTI's financial statements.

UTI is partially self-insured for employee health insurance claims and incurs a maximum of \$100,000 per employee under medical claims. UTI was self-insured for workers compensation for certain years prior to 2000 and incurs a maximum of \$250,000 per event for workers compensation claims. Although UTI believes that adequate reserves have been provided for expected liabilities arising from its self-insured obligations, management's estimates of these liabilities may change in the future as circumstances develop.

UTI's operations are subject to the many hazards inherent in the onshore drilling industry, such as blowouts, explosions, sour gas, well fires and spills. These hazards can result in personal injury and loss of life, severe damage to or destruction of property and equipment, pollution or environmental damage and suspension of operations. Although UTI maintains insurance protection as management deems appropriate, such insurance coverage may not provide sufficient funds to protect UTI from all liabilities that could result from its operations. Also, claims will be subject to various retentions and deductibles. While UTI has generally been able to obtain some degree of contractual indemnification from its customers in most of its dayrate drilling contracts, no such indemnification is typically available for footage or dayrate contracts. The indemnity agreements require the customers to hold UTI harmless in the event of loss of production or reservoir damage. This contractual indemnification may not be supported by adequate insurance maintained by the customer.

UTI's operations routinely involve the handling of various materials, including hazardous materials. UTI may be exposed to liability under numerous state and federal environmental laws, rules and regulations, including dealing with hazardous materials. In addition, environmental laws and regulations including The Comprehensive Environmental Response, Compensation and Liability Act (also known as the "Superfund Law"), may impose strict liability whereby UTI could be liable for clean-up costs, even if the situation resulted from previous conduct of UTI that was lawful at the time conducted or from improper conduct of or conditions caused by previous property owners or other persons not associated with UTI. UTI maintains insurance coverage against some environmental liabilities, including pollution caused by sudden and accidental oil spills.

Management believes it has adequately reserved for these contingencies. Management is of the opinion that the outcome of known and potential claims will not have a material adverse effect on UTI's operations.

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(All share amounts reflect the 2:1 stock split effective October 3, 2000)

**6. SHAREHOLDERS' EQUITY**

At UTI's Annual Meeting held on July 26, 2000, the stockholders approved an amendment to UTI's Restated Certificate of Incorporation that increased the number of authorized shares of common stock from 50 million to 100 million. In addition, at the Annual Meeting, the stockholders approved an amendment to the Restated Certificate of Incorporation to eliminate Class A common stock.

At UTI's Board of Directors Meeting held on July 26, 2000, the board approved a resolution to eliminate Class A Preferred Stock and to restate the Certificate of Incorporation.

On September 14, 2000, UTI's Board of Directors authorized a two for one stock split in the form of a stock dividend. The stock dividend was paid on October 3, 2000 to stockholders of record on September 25, 2000. As a result of the stock split, all share and per share data contained herein have been restated to reflect the effect of the two for one stock split.

**7. EXTRAORDINARY ITEM**

UTI recorded an extraordinary loss of \$329,000 after taxes (\$.01 per share) as a result of the early retirement of its \$25.0 million subordinated notes. The redemption of 12.0% debt was financed with proceeds from the revolving credit facility with interest rates between LIBOR plus 1.75% to prime. At December 31, 2000, prime interest rate was 9.5%. The loss consisted primarily of the write-off of the discount, deferred interest and financing fees.

**8. OTHER CHARGES (INCOME)**

During 1999 and 1998, UTI incurred charges related to a series of actions taken to:

- improve efficiency
- increase productivity
- make UTI more competitive in the marketplace

The actions included the reduction of regional operating offices and reductions of UTI's administrative staff. These charges were \$.3 million and \$.8 million for the years ended December 31, 1999 and 1998, respectively. There were no accruals at December 31, 2000 or December 31, 1999 related to these charges.

In March 1999, UTI sold certain land drilling assets of International Petroleum Service Company, its wholly owned subsidiary, to an unrelated party for \$5.6 million. A pre-tax gain of \$2.8 million was realized as a result of the sale. Included in the sale were:

- five land drilling rigs
- related support equipment
- rolling stock
- spare parts and supplies

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(All share amounts reflect the 2:1 stock split effective October 3, 2000)

**9. INCOME TAXES**

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. Significant components of UTI's deferred tax assets and liabilities are as follows:

	December 31,	
	2000	1999
	(in thousands)	
<i>Deferred tax assets:</i>		
Alternative minimum tax credits .....	\$ 2,754	\$ 614
Investment tax credits .....	-	21
Accrued expenses .....	4,158	1,988
Total deferred tax asset .....	6,912	2,623
<i>Deferred tax liabilities:</i>		
Depreciation .....	(46,771)	(42,529)
Net deferred tax liability .....	<u>\$ (39,859)</u>	<u>\$ (39,906)</u>

UTI's investment tax credit carryforwards expired in 2000. UTI's alternative minimum tax credit carryforwards may be carried forward indefinitely. UTI's valuation allowance related to these tax credit carryforwards is zero since management believes that these credits will be utilized to offset future tax. UTI's management adjusts the valuation allowance as circumstances change affecting the expected realization of the deferred tax assets.

The components of the provision for income taxes are as follows:

	Years Ended December 31,		
	2000	1999	1998
	(in thousands)		
<i>Current:</i>			
Federal .....	\$ 8,466	\$ (3,031)	\$ 2,372
State .....	(35)	398	314
	8,431	(2,633)	2,686
<i>Deferred:</i>			
Federal .....	(791)	2,281	2,540
Foreign .....	470	-	-
State .....	327	(73)	9
	6	2,208	2,549
	<u>\$ 8,437</u>	<u>\$ (425)</u>	<u>\$ 5,235</u>

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(All share amounts reflect the 2:1 stock split effective October 3, 2000)

**9. INCOME TAXES (Continued)**

The difference between tax expense computed at the federal income tax rate of 35% for 2000, 1999 and 1998 and actual tax expense is as follows:

	Years Ended December 31,		
	2000	1999	1998
	<i>(in thousands)</i>		
Taxes applied to pre-tax income .....	\$ 7,797	\$ (1,059)	\$ 4,586
State income tax, net of federal benefit .....	190	211	204
Foreign taxes .....	119	-	-
Permanent differences, principally nondeductible expenses .....	557	423	588
Other .....	(226)	-	(143)
	<u>\$ 8,437</u>	<u>\$ (425)</u>	<u>\$ 5,235</u>

**10. EARNINGS PER SHARE**

The following table sets forth the computation of basic and diluted earnings per share:

	Years Ended December 31,		
	2000	1999	1998
	<i>(in thousands, except per share amounts)</i>		
<u>Numerator:</u>			
Net income (loss) .....	<u>\$ 13,841</u>	<u>\$ (2,602)</u>	<u>\$ 7,868</u>
<u>Denominator:</u>			
Denominator for basic earnings per share - weighted-average shares .....	36,860	33,984	32,139
Effect of dilutive securities:			
Stock options .....	1,726	-	1,298
Warrants .....	231	-	153
Dilutive potential common shares .....	<u>1,957</u>	<u>-</u>	<u>1,451</u>
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions .....	<u>38,817</u>	<u>33,984</u>	<u>33,590</u>
Basic earnings (loss) per share .....	<u>\$ 0.38</u>	<u>\$ (0.08)</u>	<u>\$ 0.24</u>
Diluted earnings (loss) per share .....	<u>\$ 0.36</u>	<u>\$ (0.08)</u>	<u>\$ 0.23</u>

Options to purchase 1,060,000 shares of UTI's common stock and warrants to purchase 294,000 shares of UTI's common stock were not included in the computation of diluted earnings per share for 1999 as the effect would have been antidilutive due to the net loss for the year.



**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(All share amounts reflect the 2:1 stock split effective October 3, 2000)

**11. RELATED-PARTY TRANSACTIONS**

A director of UTI is an officer of a group of related companies that are both vendors and customers of UTI. UTI purchased \$5.7 million of supplies, materials and drill pipe from that vendor during 2000. UTI owed that vendor \$2.7 million at December 31, 2000. UTI provided services worth \$.8 million during 2000 to that customer. At December 31, 2000, that customer owed UTI \$.5 million.

UTI has employment contracts with certain of its executive officers.

**12. SUPPLEMENTAL CASH FLOW INFORMATION**

Supplemental Cash Flow Information

	Years Ended December 31,		
	2000	1999	1998
	(in thousands)		
<u>Noncash Investing and Financing Activities:</u>			
Norton acquisition with UTI common stock . . . .	\$ -	\$ 13,284	\$ -
Norton acquisition, deferred tax liability recorded	-	6,073	-
Peterson acquisition, deferred tax liability recorded	-	-	7,360
Suits acquisition with long-term debt issued . . . .	-	-	7,790
Suits acquisition with warrants granted . . . . .	-	-	411
Suits acquisition, deferred tax liability recorded .	-	-	6,460
<u>Cash Paid During the Period for:</u>			
Interest . . . . .	\$ 4,980	\$ 3,561	\$ 3,239
Income taxes . . . . .	119	964	7,996

**13. WARRANTS**

At December 31, 2000, warrants to purchase 121,250 shares of UTI's common stock were outstanding. The exercise price ranges from \$13.25 to \$17.50 and the warrants expire on July 31, 2003.

**14. STOCK PLANS**

At December 31, 2000, UTI has authorized options to purchase UTI common stock under the following stock plans:

Plan Name	Authorized Options	Options Available for Future Grants
Non-Employee Director Stock Option Plan	600,000	405,000
1996 Employee Stock Option Plan	1,800,000	12,600
1997 Long-Term Incentive Plan	3,800,000	1,217,500
Norton 1997 Stock Option Plan	213,650	0

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(All share amounts reflect the 2:1 stock split effective October 3, 2000)

**14. STOCK PLANS (Continued)**

Other pertinent data related to the stock option plans are as follows:

<u>Plan Name</u>	<u>Vesting</u>	<u>Term</u>
Non-Employee Director Stock Option Plan	1 year	5 years
1996 Employee Stock Option Plan	1 - 5 years	5 - 10 years
1997 Long-Term Incentive Plan	1 - 5 years	5 - 10 years
Norton 1997 Stock Option Plan	3 years	10 years

On August 12, 1998, certain of the options under the 1996 Employee Stock Option Plan and the 1997 Long-Term Incentive Plan were repriced. The original exercise prices of \$5.69, \$6.97, \$8.13, \$10.00 and \$15.81 were repriced to \$4.94 (the fair market value on the date of repricing). The repricing did not have an effect on UTI's results of operations or future accounting for the plan.

SFAS 123 requires that pro forma information regarding net income and earnings per share be presented as if UTI had accounted for its employee stock options under the fair value method as defined in that Statement for options granted or modified after December 31, 1994. The fair value for applicable options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
Risk-free interest rates . . . . .	6.33%	4.53%	4.91%
Dividend yield . . . . .	0.00%	0.00%	0.00%
Volatility factors . . . . .	1.1385	1.219	0.669
Expected life of the option . . . . .	4.0 years	2.0 years	3.20 years

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restriction and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. UTI's management believes that the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options because:

- UTI's employee stock options have characteristics significantly different from those of trade options
- changes in the subjective input assumptions can materially affect the fair value estimate

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(All share amounts reflect the 2:1 stock split effective October 3, 2000)

**14. STOCK PLANS (Continued)**

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. UTI's pro forma information follows:

	Years Ended December 31,		
	2000	1999	1998
	<i>(in thousands, except per share amounts)</i>		
Pro forma net income (loss) .....	\$ 11,220	\$ (4,381)	\$ 5,105
<i>Pro forma earnings (loss) per share:</i>			
Basic .....	\$ 0.30	\$ (0.13)	\$ 0.16
Diluted .....	\$ 0.29	\$ (0.13)	\$ 0.15
Weighted-average fair value of options granted per share .....	\$ 14.00	\$ 3.42	\$ 2.56

A summary of UTI's stock option activity and related information for the years ended December 31 follows:

	Shares Under Option	Weighted- Average Exercise Price
Outstanding, December 31, 1997 .....	3,948,950	\$ 6.00
Granted .....	2,012,750	5.26
Exercised .....	(312,960)	2.16
Canceled .....	<u>(1,814,250)</u>	11.09
Outstanding, December 31, 1998 .....	3,834,490	3.53
Granted .....	1,485,754	5.57
Exercised .....	(1,043,110)	1.46
Canceled .....	<u>(68,062)</u>	5.39
Outstanding, December 31, 1999 .....	4,209,072	4.73
Granted .....	531,000	18.05
Exercised .....	(1,014,747)	3.23
Canceled .....	<u>(9,879)</u>	16.09
Outstanding, December 31, 2000 .....	<u>3,715,446</u>	\$ 7.01
<i>Exercisable, December 31,</i>		
1997 .....	2,246,344	\$ 3.93
1998 .....	2,605,240	2.73
1999 .....	2,091,348	4.08
2000 .....	1,875,751	5.24

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(All share amounts reflect the 2:1 stock split effective October 3, 2000)

**14. STOCK PLANS (Continued)**

Exercise price for options outstanding as of December 31, 2000 ranged from \$3.66 per share to \$32.88 per share. The weighted-average remaining contractual life of those options is 6.96 years.

In February 1999, UTI adopted a Rights Plan which provided for the distribution by UTI of one preferred stock purchase right for each outstanding share of common stock to holders of record of common stock at the close of business on March 10, 1999. The Rights Plan provided that UTI shall issue one Right with each share of common stock prior to the earliest of the following:

- the date the rights first become exercisable, known as the distribution date of the rights
- the date of redemption of the rights
- February 26, 2009, which is the expiration date of the rights

Until such time that the rights become exercisable, the rights will be evidenced by the certificates representing the shares of common stock and may only be traded with such shares. Each right, once exercisable, will entitle the registered holder to purchase from UTI one one-thousandth of a share of UTI's Series I Preferred Stock, par value \$.01 per share, at a price of \$21.25 per one one-thousandth of a share, subject to adjustments.

The rights become exercisable only if, without the prior consent of UTI, the following occurs:

- a person or group of associated or related persons acquire, or obtain the right to acquire, 15% or more of the voting power of all outstanding common stock of UTI, or
- any person or group of related persons makes a tender offer or exchange offer which could result in such person or group owning beneficially 15% or more of the voting power of all outstanding common stock of UTI

**15. DEFINED CONTRIBUTION PLANS**

UTI maintains defined contribution plans for the benefit of its employees. Prior to January 1, 2000, employees were eligible to participate upon reaching 21 years of age and completion of one year of service with 1,000 or more active work hours. Effective January 1, 2000, employees are eligible to participate after one hour of service without regard to their age. UTI currently matches \$.50 for each dollar contributed by the employee up to 4% of the employee's total annual compensation. The following table shows the matching that UTI made for the last three years:

<u>2000</u>	<u>1999</u>	<u>1998</u>
\$634,000	\$289,000	\$298,000

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(All share amounts reflect the 2:1 stock split effective October 3, 2000)

**16. COMPREHENSIVE INCOME**

	Years Ended December 31,		
	2000	1999	1998
	<i>(in thousands)</i>		
Net income (loss) . . . . .	\$ 13,841	\$ (2,602)	\$ 7,868
Other comprehensive income:			
Foreign currency translation . . . . .	30	-	-
Comprehensive income (loss) . . . . .	<u>\$ 13,871</u>	<u>\$ (2,602)</u>	<u>\$ 7,868</u>

**17. FINANCIAL INSTRUMENTS**

Cash, cash equivalents and trade accounts receivable are the financial instruments that potentially subject UTI to significant concentrations of credit risk. UTI performs ongoing credit evaluations of its customers and generally does not require material collateral. UTI provides allowances for potential credit losses when necessary.

UTI maintains cash balances with various financial institutions. These financial institutions are located throughout North America. UTI's policy is designed to limit exposure to any one institution. However, at December 31, 2000, UTI had 68% of its cash and cash equivalents in one institution. UTI performs periodic evaluations of the relative credit standing of those financial institutions to ensure high credit quality.

*Cash and cash equivalents, accounts receivable and accounts payable:* The carrying amounts reported in the balance sheets approximate fair value.

*Long-term debt:* The carrying amounts included in the balance sheets of UTI's borrowings under its revolving credit facility and promissory notes approximate fair value. The fair value was estimated by management based upon estimates of current interest rates available at the balance sheet date for similar issues.

**18. INDUSTRY SEGMENT INFORMATION**

UTI has two reportable segments: land drilling and pressure pumping. Reportable segments are business units that offer different services.

UTI evaluates performance and allocates resources based on profit or loss from operations before other income or expense and income taxes. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(All share amounts reflect the 2:1 stock split effective October 3, 2000)

**18. INDUSTRY SEGMENT INFORMATION (Continued)**

The other category in the segment breakdown is attributable to investments in oil and natural gas properties. This segment has not met the quantitative thresholds for determining reportable segments. There are no intersegment sales and transfers.

		Years Ended December 31,	
	2000	1999	1998
	(in thousands)		
<i><u>Revenues:</u></i>			
Land Drilling . . . . .	\$ 253,887	\$ 134,870	\$ 162,600
Pressure Pumping . . . . .	21,465	20,721	23,365
Other . . . . .	191	184	192
	<u>\$ 275,543</u>	<u>\$ 155,775</u>	<u>\$ 186,157</u>
<i><u>Selling, General and Administrative:</u></i>			
Land Drilling . . . . .	\$ 3,943	\$ 2,818	\$ 3,767
Pressure Pumping . . . . .	3,197	3,457	3,216
Other . . . . .	-	-	-
	7,140	6,275	6,983
Corporate . . . . .	4,819	3,895	3,798
	<u>\$ 11,959</u>	<u>\$ 10,170</u>	<u>\$ 10,781</u>
<i><u>Operating Income:</u></i>			
Land Drilling <sup>(1)</sup> . . . . .	\$ 28,670	\$ (1,953)	\$ 13,915
Pressure Pumping <sup>(1)</sup> . . . . .	3,282	3,662	5,098
Other <sup>(1)</sup> . . . . .	56	39	19
	32,008	1,748	19,032
Corporate . . . . .	(5,124)	(4,053)	(3,263)
Other Charges (Income) . . . . .	483	2,861	(206)
	<u>\$ 27,367</u>	<u>\$ 556</u>	<u>\$ 15,563</u>
<i><u>Depreciation and Amortization:</u></i>			
Land Drilling . . . . .	\$ 26,369	\$ 22,490	\$ 18,350
Pressure Pumping . . . . .	1,584	1,391	1,043
Other . . . . .	73	82	58
	28,026	23,963	19,451
Corporate . . . . .	305	159	78
	<u>\$ 28,331</u>	<u>\$ 24,122</u>	<u>\$ 19,529</u>

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(All share amounts reflect the 2:1 stock split effective October 3, 2000)

**18. INDUSTRY SEGMENT INFORMATION (Continued)**

	Years Ended December 31,		
	2000	1999	1998
	<i>(in thousands)</i>		
<i>Acquisitions of Property and Equipment:</i>			
Land Drilling . . . . .	\$ 34,186	\$ 7,116	\$ 32,912
Pressure Pumping . . . . .	4,426	2,307	3,895
Other . . . . .	12	-	50
	<u>38,624</u>	<u>9,423</u>	<u>36,857</u>
Corporate . . . . .	45	21	572
	<u>\$ 38,669</u>	<u>\$ 9,444</u>	<u>\$ 37,429</u>

	December 31, 2000	December 31, 1999
	<i>(in thousands)</i>	
<i>Segment Assets:</i>		
Land Drilling . . . . .	\$ 306,246	\$ 233,341
Pressure Pumping . . . . .	16,114	16,399
Other . . . . .	<u>169</u>	<u>318</u>
	<u>322,529</u>	<u>250,058</u>
Corporate . . . . .	<u>7,278</u>	<u>10,524</u>
	<u>\$ 329,807</u>	<u>\$ 260,582</u>

- (1) Operating income is total operating revenues less operating expenses, depreciation and amortization and does not include general corporate expenses, other charge, interest or income taxes.

One customer of UTI's land drilling segment, Anadarko Petroleum Corp., represented approximately 10% of consolidated revenue in 1999 and 11% of consolidated revenue in 1998.

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(All share amounts reflect the 2:1 stock split effective October 3, 2000)

**18. INDUSTRY SEGMENT INFORMATION (Continued)**

The following tables set forth financial information with respect to UTI's operations by geographic area:

	Years Ended December 31,		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
	<i>(in thousands)</i>		
<u>Revenues:</u>			
United States .....	\$ 261,753	\$ 155,775	\$ 186,157
Canada .....	13,790	-	-
	<u>\$ 275,543</u>	<u>\$ 155,775</u>	<u>\$ 186,157</u>

	December 31, <u>2000</u>	December 31, <u>1999</u>
	<i>(in thousands)</i>	
<u>Long Term Assets:</u>		
United States .....	\$ 225,195	\$ 210,473
Canada .....	32,458	-
	<u>\$ 257,653</u>	<u>\$ 210,473</u>

<u>Goodwill:</u>		
United States .....	\$ 17,733	\$ 19,261
Canada .....	-	-
	<u>\$ 17,733</u>	<u>\$ 19,261</u>



**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(All share amounts reflect the 2:1 stock split effective October 3, 2000)

**19. SELECTED QUARTERLY FINANCIAL RESULTS (Unaudited)**

Quarterly financial information for the years ended December 31, 2000, 1999 and 1998 is as follows:

	<u>1<sup>st</sup> Qtr</u>	<u>2<sup>nd</sup> Qtr</u>	<u>3<sup>rd</sup> Qtr</u>	<u>4<sup>th</sup> Qtr</u>	<u>Total</u>
	<i>(in thousands, except per share amounts)</i>				
<u>2000</u>					
Revenues . . . . .	\$ 54,273	\$ 55,585	\$ 72,331	\$ 93,354	\$ 275,543
Gross Profit <sup>(1)</sup> . . . . .	4,203	5,092	10,870	18,222	38,387
Extraordinary Item, net of tax . . . . .	-	-	(329)	-	(329)
Net Income . . . . .	304	745	3,898	8,894	13,841
Earnings Per Share <sup>(2)</sup> . . . . .					
Basic . . . . .	0.01	0.02	0.11	0.24	0.38
Diluted . . . . .	0.01	0.02	0.10	0.23	0.36
<u>1999</u>					
Revenues . . . . .	\$ 32,536	\$ 28,884	\$ 42,396	\$ 51,959	\$ 155,775
Gross Profit <sup>(1)</sup> . . . . .	795	95	3,040	4,483	8,413
Net Income (Loss) . . . . .	(256)	(2,928)	(355)	937	(2,602)
Earnings (Deficit) Per Share <sup>(2)</sup> . . . . .					
Basic . . . . .	(0.01)	(0.09)	(0.01)	0.05	(0.08)
Diluted . . . . .	(0.01)	(0.09)	(0.01)	0.05	(0.08)
<u>1998</u>					
Revenues . . . . .	\$ 48,317	\$ 48,403	\$ 48,690	\$ 40,747	\$ 186,157
Gross Profit <sup>(1)</sup> . . . . .	9,126	8,535	7,371	2,661	27,693
Net Income (Loss) . . . . .	3,547	3,102	1,624	(405)	7,868
Earnings (Deficit) Per Share <sup>(2)</sup>					
Basic . . . . .	0.11	0.10	0.05	(0.01)	0.24
Diluted . . . . .	0.10	0.09	0.05	(0.01)	0.23

(1) Gross profit represents revenues minus direct operating costs and depreciation and amortization and excludes provisions for bad debts, other charges (income), and selling, general and administrative expenses.

(2) Earnings (deficit) per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly earnings per share may not equal the total computed for the year.

**UTI ENERGY CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
(All share amounts reflect the 2:1 stock split effective October 3, 2000)

**20. SUBSEQUENT EVENTS**

In January of 2001, UTI acquired six land drilling rigs located in the United States through three separate transactions for \$13.2 million in cash, increasing UTI's capacity.

On February 5, 2001, UTI announced that its Board of Directors along with the Board of Directors of Patterson Energy Inc. approved a merger of the two companies. According to the terms of the merger agreement between UTI and Patterson, shareholders of UTI will receive one share of Patterson common stock for each share of UTI common stock and Patterson will assume UTI's outstanding options and warrants. The board of directors of the new company will consist of eleven directors, six of which will be selected by Patterson and five of which would be selected by UTI. Although the merger agreement does not specify who will be the officers of the new company, management of UTI understands that Mark S. Siegel, UTI's Chairman of the Board, would be the Chairman of the Board and Cloyce A. Talbott, Patterson's Chairman of the Board and Chief Executive Officer, would be Chief Executive Officer. The combined company will be the second largest United States land-based drilling service contractor with 302 drilling rigs and will be called "Patterson-UTI Energy, Inc."

Under the terms of the merger agreement, both UTI and Patterson have agreed not to solicit competing offers, but the boards of directors of each company are free to consider and accept an unsolicited offer if, based on advice of counsel, it believes it must do so in the exercise of its fiduciary duty. In the event a party accepts an unsolicited offer, or its board of directors withdraws its recommendation in light of an unsolicited offer, or the shareholders do not vote to approve the merger because of an unsolicited offer, the other party would be entitled to receive a breakup fee of \$32.5 million plus reimbursement of expenses of up to \$2.5 million. In the event the shareholders of one party do not vote to approve the merger and the other party is not in default and is ready, willing and able to perform its agreement, the party whose shareholders vote against the merger will be required to pay to the other party \$2.5 million, plus up to an additional \$2.5 million in expenses.

The merger is subject to customary conditions to closing, including approval by the shareholders of both companies, as well as any necessary regulatory filings and approvals, such as the anti-trust provisions of the Hart-Scott-Rodino Act. There can be no assurance that the merger will be consummated in accordance with the terms of the merger agreement, if at all.

**UTI ENERGY CORP.**  
**SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS**

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions<sup>(1)</sup></u>		<u>Deductions<sup>(2)</sup></u>	<u>Balance at End of Period</u>
		<u>Charged to Costs and Expenses</u>	<u>Charged to Acquisition Costs</u>		
		<i>(in thousands)</i>			
Year Ended December 31, 2000					
Deducted from asset accounts:					
Allowance for doubtful accounts	<u>\$ 3,143</u>	<u>\$ (456)</u>	<u>\$ (101)</u>	<u>\$ 627</u>	<u>\$ 1,959</u>
Year Ended December 31, 1999					
Deducted from asset accounts:					
Allowance for doubtful accounts	<u>\$ 1,919</u>	<u>\$ 548</u>	<u>\$ 942</u>	<u>\$ 266</u>	<u>\$ 3,143</u>
Year Ended December 31, 1998					
Deducted from asset accounts:					
Allowance for doubtful accounts	<u>\$ 815</u>	<u>\$ 1,143</u>	<u>\$ -</u>	<u>\$ 39</u>	<u>\$ 1,919</u>

(1) Net of recoveries.

(2) Uncollectible accounts written off.

## SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, UTI has duly caused this report to be signed on its behalf by the undersigned, who has been duly authorized.

UTI ENERGY CORP.

By: /s/Vaughn E. Drum  
Vaughn E. Drum, President,  
Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/Mark S. Siegel</u> Mark S. Siegel	Chairman and Director	<u>February 22, 2001</u>
<u>/s/Vaughn E. Drum</u> Vaughn E. Drum	President, Chief Executive Officer and Director	<u>February 22, 2001</u>
<u>/s/John E. Vollmer III</u> John E. Vollmer III	Senior Vice President, Secretary, Treasurer and Chief Financial Officer	<u>February 22, 2001</u>
<u>/s/Bruce Sauers</u> Bruce Sauers	Vice President and Chief Accounting Officer	<u>February 22, 2001</u>
<u>/s/Kenneth N. Berns</u> Kenneth N. Berns	Director	<u>February 22, 2001</u>
<u>/s/Curtis W. Huff</u> Curtis W. Huff	Director	<u>February 22, 2001</u>
<u>/s/Terry H. Hunt</u> Terry H. Hunt	Director	<u>February 22, 2001</u>
<u>/s/Nadine C. Smith</u> Nadine C. Smith	Director	<u>February 22, 2001</u>
<u>/s/Robert B. Spears</u> Robert B. Spears	Director	<u>February 22, 2001</u>